CHILD & FAMILY POLICY CENTER

The Iowa Child Care Experience Since 1996:

Implications for Federal and State Policy

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Executive Summary

Introduction

Among states, Iowa has one of the very highest rates of workforce participation by parents of both pre-school and school-age children. Therefore, Iowa has one of the highest needs for child care.

This paper describes the growth in Iowa's public child care subsidy and support system to help meet that need. Part One describes the growth in funding support in the context of the growth in need and demand. Part Two examines how well Iowa's system has addressed issues of child care affordability, availability, and quality.

Since 1990, Iowa's public support for child care has grown dramatically, but primarily as the result of increased federal, as opposed to state, funding. While Iowa has made a major effort to create economic incentives for families to move from welfare to work through its earned income disregards, its support for increased or improved child care has been modest.

Part One: Growth in the Context of Demand and Need

Since 1986, Iowa's child care subsidy program (including subsidies for working families, families in training and education programs under TANF, or whose children are in protective child care) grew from a $1.6 million program serving 1,260 children to a $19.5 million program serving 6,485 children in 1996 and a $49.9 million program serving 14,360 children in 2001. Since 1996, that growth has been entirely the result of increased federal funding through the Child Care and Development Fund (CCDF) and transfers from the Temporary Assistance to Needy Families (TANF) Fund. During that period, state funding declined from over half of all funding to about one-sixth of all funding.

Iowa's child care subsidies do enable families leaving welfare for low paying jobs to experience a significant economic gain as a result of their working, which otherwise would be minimal (as a result of declining welfare and food stamp benefits, and increases in social security and other state and federal taxes). When families with child care expenses increase their earnings to the point they lose eligibility for the child care subsidy, however, they retain very little of their increased earnings as actual disposable income. Working poor and low income families, who are most likely to have very young children in need of child care, have a very high effective tax on their earnings, in large measure because of the costs of child care.

While Iowa's child care subsidy and support program has expanded significantly over the last decade, so has the number of families with very young children who need child care subsidies and support. During the same general period that the number of children being subsidized increased by 8,300 (1992-2000), the number of pre-school children in families where mothers worked increased by 30,000, and the number of children in TANF households declined by 33,000, many due to parental workforce involvement. Overall, the growth in Iowa subsidies, while dramatic, has not fully reflected the growth in the need for subsidized care.

In addition, Iowa's combined funding support to families on welfare through cash assistance and all low-income families through child care subsidies, when added together and adjusted for inflation, has declined. From 1990 to 2001, the combined spending on both programs has declined from $210 million to $126 million in real (inflation-adjusted) dollars. It also has declined from over 6% of the state budget to less than 3% of the state budget.

Part Two: Affordability, Availability and Quality Issues in Iowa's Child Care System.

Iowa has managed to keep within its child care subsidy program appropriation amount largely by keeping eligibility limits low. Families (unless they have a special needs child) must have an income less than 140% of poverty to qualify for the subsidy program, one of the seven lowest state eligibility levels in the country. While co-payments are not high for parents in the subsidy system (although they can take more than 10% of a family's income, particularly when more than one child requires care), there is a huge cliff effect for families increasing earnings just above the eligibility level. At that point, their child care costs can suddenly jump to require 40% of their earnings or more. This low eligibility level makes it very difficult for working families above the eligibility level to secure child care that is safe and affordable, with several individual stories showing families having to make the choice between the two. Even under the subsidy program, reimbursement rates and administrative requirements often provide barriers to families to select the care they desire for their children.

Iowa also has significant child care shortage areas, particularly for second- and third-shift care, for infant care, and for care in rural communities. Second- and third-shift care is particularly problematic, as a large percentage of families leaving welfare find their best opportunities for earning money are through accepting non-traditional hours employment.

While Iowa uses federal quality funds for several innovative programs to improve quality, particularly in providing wrap-around child care for children also in Head Start or other enriched pre-school programs, Iowa's system itself has serious quality concerns. The majority of the growth in the child care program has been in non-registered and unregulated care, as opposed to care in licensed centers or registered family day care homes. Families report they often use such settings not out of preference, but out of necessity.

An examination of Polk County child care use patterns also shows that high quality child care (as indicated by accreditation) provides proportionately many fewer slots for families with subsidy payments than those who pay the cost themselves. Further, almost all of the self-paying families are in the upper-income levels, with almost none in the 140% to 200% of poverty range, who simply are priced out of that level of care.

While Iowa has made significant investments in a variety of other early childhood services (family support, parenting education programs, and enriched pre-school programs) for low-income and vulnerable families, Iowa's overall state, federal, and local investments in developmental and educational supports for very young children pale in comparison with those made for school-aged children and young adults. Overall, Iowa invested less than $600 per child on developmental and educational supports for very young (0-5) children and their families in FY2001, compared with nearly $5,900 per school-aged child (6-17) and $3,650 per young adult (18-23).

Conclusions and Recommendations

At the federal level, expansion of the Child Care and Development Fund is needed, with particular attention to addressing the growth in the need for subsidized child care in order to ensure that working families see real economic improvement through their employment. In particular, the federal government should consider a Working Parent Child Care Equivalency Act that insures that necessary CCDF, TANF, and other funding is directed to the full spectrum of working low and moderate-income families, and not just those on or leaving public assistance.

At the state level, Iowa has a number of reports that provide direction for improving the quality, affordability, and availability of child care. These require funding, and the state must regard these as investments needed for overall state growth and well-being. In the long term, investments in early care and education (including but not limited to child care) are a critical component of any comprehensive Iowa economic development strategy and should be recognized as such.

Introduction

Iowa families work hard. Among states, Iowa has one of the very highest rates of workforce participation by both parents (or the only parent) of both pre-school and school-age children. Therefore, Iowa has one of the highest needs for child care.

Nevertheless, as a state, Iowa has made only modest investments in child care. While Iowa long has provided some funding to subsidize child care for families who qualified for its Aid to Families with Dependent Children (AFDC) program, prior to 1990, its overall level of funding was quite small, even in comparison with its neighboring states and its eligibility levels for a subsidy continue to remain low.[1] Moreover, Iowa does not have a strong child care licensing system. While Iowa licenses child care centers and requires family day care providers serving more than six children to register with the state, for instance, it does not require smaller family day care providers to register, nor does it hold those who do register to stringent standards.[2]

A brief description of the essential features of Iowa's current child care subsidy program is provided in Table One.

Since 1990, primarily as the result of increased federal funding, Iowa's child care subsidy program has grown dramatically. This paper describes the changes over this period in Iowa's child care subsidy and child care support system, which have developed in close connection with state and federal welfare reform efforts. While Iowa has fulfilled its maintenance of effort requirements under expanded federal funding through the federal Child Care and Development Fund (CCDF) and the Temporary Assistance to Needy Families (TANF) grant programs, Iowa has made few state-funded efforts to expand support for child care, either to increase the number of children served through subsidies or to improve the quality of care. Iowa represents a state which has complied with federal requirements regarding child care, but generally has not gone beyond them.

At the same time, Iowa's welfare reform efforts have been very focused upon improving the economic situation of families leaving welfare through employment. In 1993, Iowa was one of a number of states that received a waiver from the United States Department of Health and Human Services to implement a new approach to welfare, the Family Investment Program (FIP). FIP was implemented nearly statewide, except for a small control group required for the waiver. Its goal, according to the enabling legislation, was to "replace provisions which encourage dependency with incentives for employment and self-sufficiency."

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[1] In state fiscal year 1986, Iowa spent $1,608,712 for subsidized day care for low income families, including $566,676 in federal social services block grant funds and $100,618 in federal special needs (IV-A) funds to support AFDC recipients going to school. This amounted to $.43 per child in the state, compared with spending by Iowa's contiguous states (Illinois, Kansas, Minnesota, Missouri, Nebraska, South Dakota, and Wisconsin) in the range of $1.22 to $7.22 per child. Iowa Human Needs Network. (Doesn't Anybody Care? How Iowa Has Responded to Human Needs in the 1980s.) Des Moines, IA: 1987. The source for this data is the Iowa Department of Human Services and the Senate Democratic Caucus. At 140% of poverty, Iowa's child care subsidy eligibility limit today is one of the seven lowest in the country.

[2] Unlike many other states, Iowa does not require registration of all family child care providers, nor does it have any requirements for pre-service training for those who do register. Outside of a criminal records and child abuse registry check for those who voluntarily register or participate in the subsidy program, small family child care providers are not subject to any state regulations or requirements. Children's Defense Fund. *A Fragile Foundation: State Child Care Assistance Policies.* Washington, DC: 2001.

TABLE ONE: A Brief Overview of Iowa's Public Child Care System

Iowa both regulates and funds child care services. Iowa's regulatory structure requires that all centers be licensed and meet certain requirements. All group family day care providers (serving more than six children) must be registered. Registration for smaller family day care providers is optional.

Most of Iowa's child care subsidy payments are administered through the Iowa Department of Human Services, according to the following criteria:

1. **Eligibility:** Families with incomes at or below 140% of poverty are eligible, although families with a special needs child have a higher eligibility level (175% of poverty) for that child.
2. **Sliding Fee Schedule:** Families with incomes at or below the poverty level have no co-payments. A sliding fee schedule exists for families with incomes above the poverty level, starting at $.50 per half-day of care and going to $3.50 per half day of care.
3. **Provider selection:** Families can choose any licensed or registered provider, and the provider must accept the state payment as payment in full. Families may choose non-registered providers, but those providers must have criminal record and child abuse background checks and be approved to receive state funds.
4. **Payment:** Providers are paid based upon a market survey completed in 1998, with a maximum payment based upon the 75th percentile for all providers except non-registered providers. Non-registered provider payment rates are still based upon pre-1996 market rates (as an incentive to encourage providers to become registered).
5. **Coverage:** According to the 1999 Administration on Children and Families report, Iowa's subsidy program serves approximately 8% of all children in the state at or below the federal maximum eligibility cut-off level of 85% of median family income.

In addition to subsidizing child care services, Iowa also supports the Child Care Resource and Referral agencies, quality activities, and provides funding through a Community Empowerment program to local communities to improve their services for young children and their families.

To achieve this goal, FIP: (1) increased work-and-earn incentives (by establishing an earned income disregard of 50% of earnings); (2) expanded the amount of assets a family could retain and still qualify for assistance; (3) eased the eligibility requirements for two-parent families to receive assistance (by eliminating the prior work requirement for unemployed parent qualification); (4) required most participants to enter into agreements to participate in education, training, or work programs (family self-sufficiency agreements); and (5) established provisions for the termination or reduction of benefits for failing to meet the terms of these agreements.[3] It provided exemptions from the work and training requirement if families could not secure necessary child care arrangements for their children. It did not provide for any substantial increases in funding for child care or changes to the overall AFDC benefit payment structure.

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[3] Scott, Stephen and Charles Bruner. "Iowa's Welfare Reform: Critical Issues, No Easy Answers," Iowa Kids Count Quarterly. Winter, 1993. Vol. 3, No. 1, p. 1.

The earned income disregards and the treatment of two parent families were designed to support employment as a means for families to work their way out of poverty and not simply to reduce welfare participation. The result has been that families with incomes significantly above the poverty level still remain eligible for TANF payments.[4]

The Family Investment Program's basic features were continued in Iowa's transition to the Temporary Assistance to Needy Family (TANF) federal guidelines, although Iowa added the federal five-year limit on receipt of benefits, and eliminated the small control group to make the program universal.

Welfare reform nationally, as well as in Iowa, to some extent has shifted the discussion of the government's role from what welfare assistance should be for dependent families with children to what supports government should provide to low-income working families of all types. Still, subsidized child care in Iowa has been, and continues to be, primarily linked to the welfare system.

This paper will focus both on child care subsidies as they relate to TANF and the welfare system, and child care subsidies as they relate to the broader population of working families with child care needs. It will describe the increases in providing child care subsidies in the context of increased demand and needs, the degree to which issues of quality have been addressed, and the needs for further governmental response.

The first part of this paper concentrates on Iowa's child care subsidy program as it applies to supporting low- and moderate-income families with their child care needs. The second part of the paper discusses administrative and financing issues around both the subsidy program and other Iowa programs supporting child care. The conclusion offers recommendations regarding federal CCDF reauthorization and state action.

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[4] The changes in the earned income disregards in Iowa's program were among the most generous in the country, and the treatment of two parent families as eligible for assistance, based solely on earnings and resources, technically made a number of already working families eligible for AFDC benefits. The ceiling for earnings for a family of three prior to adoption of the new Iowa disregard rules was about $8,000. With the disregards, the ceiling rose to $17,000. According to current population survey data on family income, this nearly doubled the pool of families who technically would qualify for AFDC benefits, although Iowa saw no dramatic change in enrollment as a result of these changes. *Ibid.* p. 5. This extending of the amount families could earn before they reach a ceiling of qualification for AFDC (and now TANF) benefits extends upward, but does not eliminate, the threshold effect that exists due to the loss of benefits, now primarily related to the loss of medical assistance benefits for the parent. It does continue to provide benefit support up to, and above, the current federal poverty level for a family of three ($14,630) and results in lifting some families above the poverty level that the previous system would not. The federal poverty data is for the 48 contiguous states and the District of Columbia. *Federal Register,* Vol. 66, No. 33, February 16, 2001, pp. 10695-10697.

PART ONE: Growth in the Context of Demand and Need

One of the reasons for the growth in federal funding support for child care is to enable families to work. This part of the paper focuses on Iowa's child care subsidy program, and provides data on overall public spending to address both the affordability and availability of child care.[5] First, it discusses the growth of support for child care within Iowa, with an emphasis upon the contribution that CCDF and TANF funding has provided to that growth. Second, it describes how subsidies contribute to the ability of families to improve their economic position through employment. Third, it describes the growth in child care in the context of rising demand, due to increased parental workforce participation. Fourth, it describes trends in overall governmental spending on welfare benefits and child care subsidies combined. Finally, it provides a brief summary of, and conclusions from, this information.

I. Growth in Iowa's Child Care Subsidy Program

Historically, Iowa has provided limited state funding support for child care subsidies, relying primarily upon federal child care funds. Initially, federal funding came through the Title XX and then the Social Services Block Grant, or through the special needs provisions of Title IV-A for AFDC families. Iowa's funding has come under several different budget line items, initially with different administrative requirements. In 1997, there was a major effort to consolidate funding for subsidized care for all types of working families into one program.

Chart One provides a picture of the amount of funding directly devoted to subsidizing child care for state fiscal years 1986, 1992, and 1996 through 2001 under what currently is the consolidated subsidy program. The current program includes subsidies for children whose parents are working or going to school and on TANF, transitioning off TANF, receiving protective day care subsidies, and not on TANF but qualifying under Iowa's earnings guidelines (140% of poverty or below, unless the child has a special need). It does not include funds expended for child care directly associated with job seeking activities that are provided through the PROMISE JOBS program.[6] These figures also do not include funding of state quality activities, Child Care Resource and Referral (CCR&R) agencies, or funds provided for early childhood to local Empowerment Boards (which may be used for certain child care activities as well as a variety of other age 0-5 initiatives).

Chart One shows a 119.9% increase in the average number of children served per month between state fiscal years 1996 and 2001, moving from 6,485 subsidized children to 14,261 children. It shows a 156.5% increase in the amount of overall funding for that subsidized care.[7] This provides the best representation of funds specifically devoted to subsidizing child care costs for working families.

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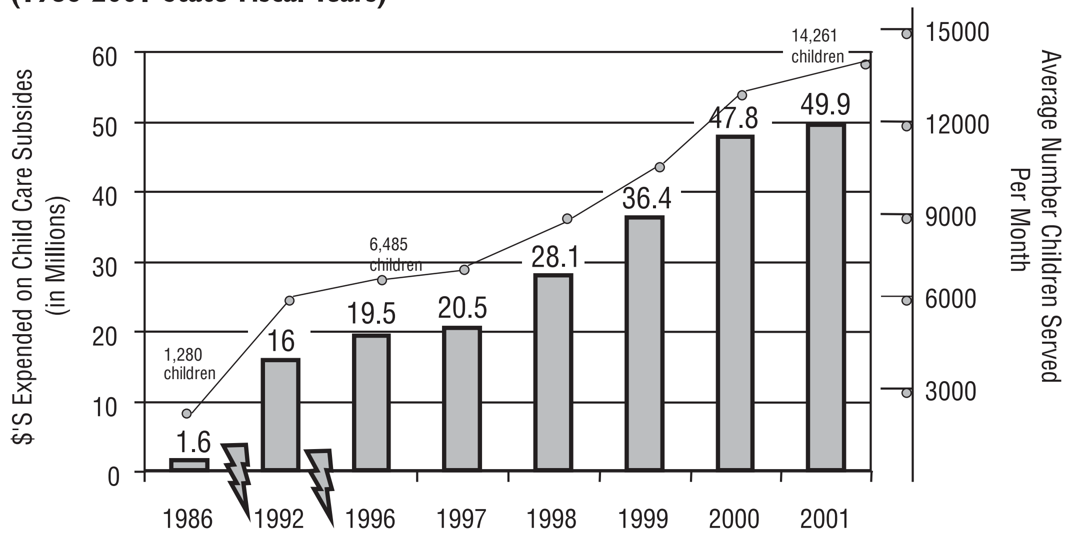
[5] The discussion of child care quality is contained in Part Two. The focus in this section is on that portion of public funding designed to subsidize child care for families for employment-related purposes, but, the available information on Iowa's child care expenditures does not always allow clean break-outs of funds for subsidies for employment-related purposes, subsidies for other (e.g., protective day care) purposes, and funds provided to increase either the availability or quality of care. This is particularly true when multiple years of funding are concerned.

[6] These child care dollars are administered under Iowa's job training component of FIP by Iowa Workforce Development and can be used only for direct job search activities. They cannot be used to subsidize child care for families who are working or in education or training programs, and therefore do not address any long-term child care need for families.

[7] These figures were derived from The Monthly Day Care Report compiled by the Department of Human Services and containing information on usage, the cost per child, and payments made from August, 1991 through July, 2001. In calculating 1992 expenditures, the eleven month expenditure figure was multiplied by 12 and divided by 11.

Chart One. Iowa Child Care Subsidies and Average Number of Children Served (1986-2001 State Fiscal Years)



Source: 1992-2001 Figures based upon monthly expenditure results from Iowa Department of Human Services. 1986 Figures from Senate Democratic Caucus Analysis of Iowa Department of Human Services Data, Published in: Iowa Human Needs Advocates. *Doesn't Anybody Care? How Iowa Has Responded to Human Needs in the 1980's.*

Unlike some other states, which have made significant state investments in child care,[8] Iowa has never invested much state funding in child care assistance. Chart Two shows the breakdown, by source, of all child care assistance (subsidies and other supports) expenditures from state fiscal year 1996 through state fiscal year 2001.[9] This chart shows overall spending on all forms of child care assistance-related activities, so its figures are higher than those in Chart One. As Chart Two shows, overall spending increased substantially during this period, from a total of $28.1 million in state fiscal year 1996 to $66.2 million in state fiscal year 2001, a 135.4% growth over the period.[10] The growth in funding from state fiscal year 1997 to state fiscal year 2001 was largely the result of TANF transfers, which began in state fiscal year 1998 and rose to $29.5 million in FY 2001, accounting for 44.6% of all expenditures in 2001.

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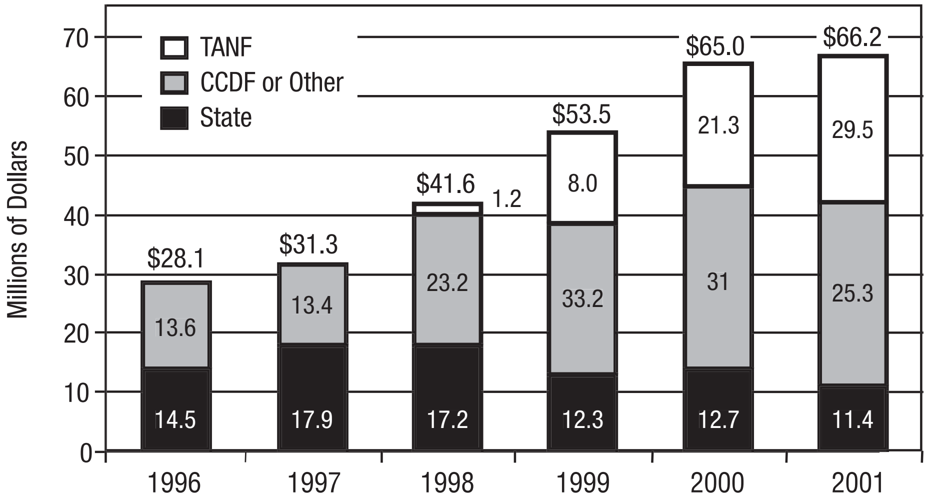
[8] North Carolina, Illinois, Vermont, Rhode Island, California, and a number of other states have had major initiatives and major state funding directed to improve the affordability, quality, and availability of child care. Children's Defense Fund, *A Fragile Foundation, op. cit.*

[9] Iowa Department of Human Services Spreadsheet. Child Care Assistance Expenditures. 2001.

[10] These figures were derived from a Department of Human Services' spreadsheet entitled *Child Care Assistance Expenditures.* They correspond closely, but not exactly, with *The Monthly Day Care Report.* They further include all of the TANF expenditures on Iowa's empowerment zones, but none of the state dollars going to that effort (which are in the Department of Education's budget). They remain the best and most comparable source, over time, of overall Iowa spending on child care that can be broken down by source of funding.

Chart Two. Overall Iowa Child Care Spending By Funding Source: State Fiscal Years 1996 to 2001



*Other Federal funding applies to SFY 1996-1998 & Child Care Development Block Grant, Social Grant, & Title IV-A Emergency Assistance.

Source: IA Department of Human Services "Child Care Assistance Expenditures" matrix.

As Chart Two shows, between state fiscal years 1996 and 2001, state funding rose initially, but then declined. State funding for child care assistance was $3.09 million less in 2001 than it was in 1996. The state share of overall funding, however, declined very substantially, from slightly over half of all spending (50.7%) to less than one-fifth of all spending (17.2%).[11]

[11] Part of the growth in state expenditures in state fiscal years 1997 and 1998 resulted from funding targeted specifically for subsidies for foster children in family foster care. The state had several different funding sources for child care (including one for foster parents, one for general child care subsidies for AFDC/TANF recipients, one for at-risk children, and one for transitional care—with different rules and funding systems) that, between state fiscal years 1998 and 1999 eventually consolidated into a single program. Protective day care remains in a separate part of the Department of Human Services' budget, coming from the children and family services division funding, but operates under some of the same guidelines. The Department of Human Services calculates its maintenance of effort requirements based upon different figures than those shown here, and has maintained its maintenance of effort according to its definition. In addition, the Iowa General Assembly established a new grant program in 1997, Community Empowerment, for communities to develop early childhood services, with a particular emphasis upon achieving the first National Educational Goal of school readiness. Some of these funds have been used by communities to support child care, although state Empowerment funds are not included in the funding in Chart Two. Community Empowerment will be discussed in more detail in Part Two of the report. Adding in a reasonable estimate of the amount of state Community Empowerment funding used for child care assistance would result in a slight increase in overall level of state funding for child care assistance from FY1997 to FY2002.

The recently enacted 2002 state budget calls for a continued expansion of overall funding, which is mainly the result of additional TANF transfers and largely financed by spending down the state's TANF surplus.[12] A severe slowdown in state revenue collections, however, already has caused the Governor to implement major cutbacks in the 2002 state budget and could adversely impact this level of support for child care. A rise in TANF cases also could jeopardize other non-cash assistance uses of TANF funds.[13]

Nonetheless, it is clear that both the Child Care and Development Fund and Temporary Assistance to Needy Families grant programs have been used to dramatically increase the number of children covered under state child care subsidies and to expand other aspects of Iowa's child care system.

II. Impact of Subsidized Child Care on Family Employment and Earning Opportunities: The Role of Child Care Subsidies in "Making Work Pay"

Public opinion polls show that, while society expects parents to support their children through working, society also believes that government should enable parents who work full-time to be able to support their children. In simpler terms, "work should pay," at least enough to provide for basic needs for the family.[14] While TANF and food stamps are designed to provide a temporary safety net for families to cover some basic living costs, working full-time should make families more economically secure than relying upon welfare.

The availability of child care subsidies (as well as the presence of the earned income tax credit) often makes a critical difference to families seeking to improve their economic position by working rather than relying upon welfare. Chart Three shows the overall disposable income of a hypothetical two-person Iowa family—a mother and young child—which moves from welfare to work and eventually earns an income of

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[12] Iowa's TANF surplus was estimated at $26.4 million at the end of the 2001 state fiscal year, with additional spending incorporated into the state fiscal year 2002 budget, primarily for child care assistance, that draws the surplus down to $12.8 million. Iowa Department of Human Services. *TANF Surplus Projections Through SFY02 Based on Current Obligations and Final Appropriation for SFY02.* August 30, 2001. The Council on Human Services recommendations to the Governor for state fiscal year 2003 are for $76.4 million for child care services (from state, CCDF, and TANF sources) and results in a virtual depletion of the TANF surplus. These recommendations were submitted to the Governor as part of a budget calling for an 11% increase in overall departmental funding from the previous state fiscal year, however, and the Governor already has instituted a 4.3% across-the-board cut in the FY2002 budget, estimating that the 2003 budget may require even greater cuts. Iowa Department of Human Services. *Iowa Council on Human Services Budget Recommendation State Fiscal Year 2003*. September 21, 2001.

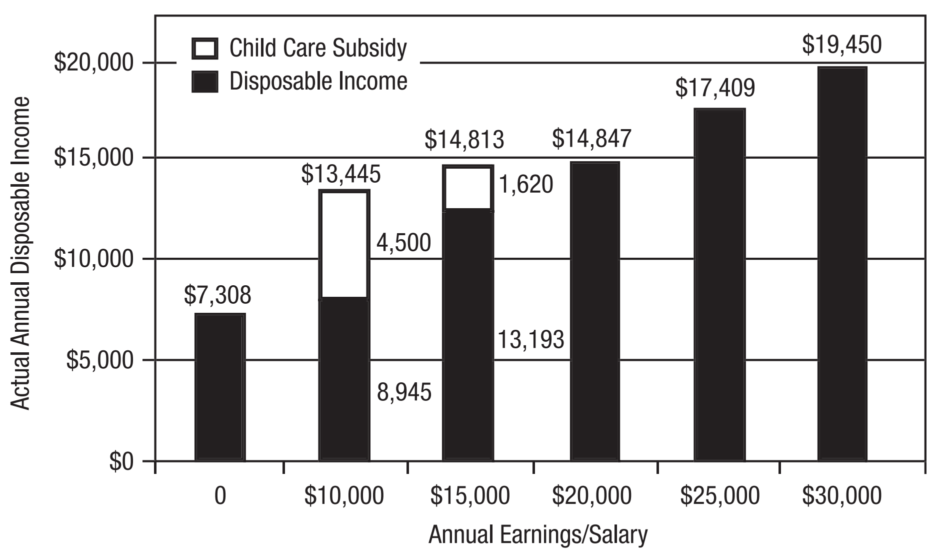
[13] For instance, the 2002 state fiscal budget was built based upon an average monthly TANF caseload of 18,590, with caseloads experiencing a long decline. Since the budget was set, however, caseloads have begun to rise, with an August, 2001 actual caseload of 20,103. Iowa's economy has slowed down and unemployment risen by nearly one percent since the start of the year, with potential implications to continued increases in the caseload. The initial caseload projection established to build the 2003 budget was 20,545, which now looks unrealistic. The Department of Human Services does not use any particular economic forecasting model in making its projections. E-mail from Deb Bingaman, Administrator of the Division of Income Maintenance, Department of Human Services, to Elizabeth Marmaras, September 21, 2001.

[14] The National Center for Children in Poverty has done a good deal of polling and surveying in developing its LIFT (Let's Invest in Families Today) Initiative, finding broad and bi-partisan support for strategies that reduce child poverty through supporting personal responsibility. An Arkansas public opinion poll showed very strong support for a variety of supports to working families with low and moderate incomes, including health insurance and child care, with 85% of Arkansas believing that it takes an income of at least $25,000 to $35,000 for a family of four to make ends meet without outside help. Arkansas Advocates for Children and Families. *Public Opinion and Legislative Response: Working Families in Arkansas.* Little Rock, AR: June, 2001.

$30,000 per year[15]. It is based upon the family's participation, when eligible, in both the TANF and food stamp programs, receipt of any child care subsidy available to it, or the payment of child care that approximates the average cost of full-time care when ineligible for a subsidy, and payment for any medical care costs not available under Medicaid or the Children's Health Insurance Program (CHIP). It does not assume the family participates in other subsidy programs, such as Section 8 housing or WIC. While real families may, in fact, make less use of federal supports (e.g., not enroll in food stamps, not apply for the earned income tax credit, or not receive help from the child care subsidy programs available to them), the hypothetical case provides a good representation of the intention of these programs to provide economic support to low-income families with children.

Chart 3 clearly shows the economic value to the family of the child care subsidy. Without the availability of a child care subsidy, the family would be only $1,638 better off (with a disposable income of $8,945) after the mother acquires a full-time job paying $10,000 per year, compared with what her family would receive in TANF and food stamp benefits. Since much or all of this increased disposable income might have to be expended on work-related activities (such as transportation, uniforms, or other work-related clothing), without the child care subsidy, the family would receive little, if any, benefit from working. In this instance, the family has an effective tax rate of 83.6% on its earnings without the child care subsidy, which is reduced to 38.6% on its earnings with the subsidy.

Chart Three. Actual Annual Disposable Income for Two-Person Family at Income Various Levels—Iowa



Disposable income includes salary, adjusted for taxes and the EITC, food stamps, and child care subsidies the family receives. It assumes child care expenditures of $4,500 for full-care.

Source: *The Dilemma of Getting Ahead: Low-Waged Families, Child Care, Income Transfer Payments and the Need to Re-Examine Government's Role.*

[15] Bruner, Charles and Jason Goldberg. *The Dilemma of Getting Ahead: Low-Waged Families, Child Care, Income Transfer Payments and the Need to Re-Examine Government's Role.* CFPC/NCSI Occasional Paper # 25, Des Moines, IA: 2000. The two-person family was one of two illustrations in the report. The other, showing similar dilemmas, was for a four-person family with two working parents. The Musser Accounting Firm conducted the tax analyses to determine social security taxes and federal and state income taxes for the families at different earnings levels.

The child care subsidy enables families leaving welfare for work to receive some economic benefit. Chart 3 also shows, however, that as the family's income increases from $10,000 to $20,000, the family will lose its eligibility for subsidized child care because the family's income increases above 140% of poverty. The family's realized gain from this $10,000 increase in salary is quite small, because the family loses food stamp and TANF benefits at the same time it loses its child care subsidy. Furthermore, the family begins to pay state and federal income taxes rather than receiving an earned income credit. The result is that 86.0% of the increased family earnings in moving from a $10,000 to a $20,000 job (from 86.1% to 172.3% of the federal poverty level) are not seen by the family in any real increase in disposable income. Chart 3 shows that while the child care subsidy provides the family with some initial economic benefit in moving from welfare to work, because of its low cut-off level, it does not continue to help the family "get ahead," particularly in moving beyond entry level minimum wage employment.

This hypothetical case involves a family of two, with only one child requiring child care while the parent works. If the family has two children needing child care, the family may be placed in the position of having its disposable income actually reduced by a stay-at-home parent going to work, if that requires paying for two children in child care. A similar hypothetical case of a four-person family where the stay-at-home parent enters the workforce but the family must then secure child care for two pre-school children, shows an equally pronounced tax on earnings, when even much below-market child care costs are factored.[16]

Clearly, given such costs, many low-income working families seek forms of care for their children at free or much below market rates. They may find a relative or neighbor to provide such care, or they may leave their older children home alone for the hours the children are not in school. These forms of care, however, may be substantially less dependable, durable, and likely to meet minimum safety and care standards than other forms of care. In addition, many families simply do not have options other than formal child care settings for their children.[17] Sally's story is an example of a situation in which a parent, in order to work, must make less than satisfactory accommodations for her daughter. Sally is a parent on the Community Advisory Team.[18]

> *Sally had been working as a temporary worker for almost eight months. This spring (2001), she was given a promotion and opportunity to work additional hours. Unfortunately, her daughter (now in first grade) has no after school care and she has been forced to rely on friends and neighbors to take care of her daughter. A recent episode of child abuse in her neighborhood makes her anxious, and frequently she misses work because her daughter has no one to pick her up from school. While the company she works for generally hires from their temporary staff, its hiring of full-time employees is based on work history, much of which is determined by the amount of overtime they are able to put in. Sally's prospect of full-time employment there is dim and*

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[16] *Ibid.* The second scenario describes a family where the second spouse, who had been staying at home to care for the children, goes into the workforce at $12,000 to complement the first spouse's $18,000 income. In this instance in Iowa, the family would not qualify for a child care subsidy, either because one spouse was at home or because the family's overall earnings was too high. In this hypothetical case, the family would actually see less than $2,500 additional income from the $12,000 job (assuming they could find child care for two children for $4,500), again not taking into account any work-related expenses.

[17] Kauff, Jacqueline, Lisa Fowler, Thomas Fraker, Julita Milliner-Waddell. *Iowa Families That Left TANF: Why Did They Leave and How Are They Faring?* Mathematica Policy Research, Inc. February, 2001. P. 16.

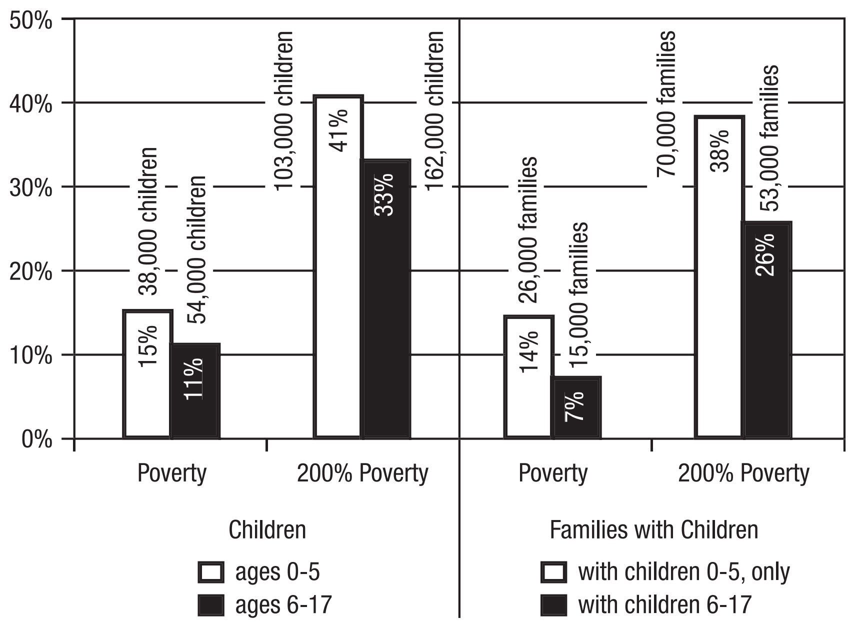
[18] Community Advisory teams were developed in five Iowa counties as peer support groups for families seeking to leave welfare, as part of a Joyce Foundation grant. The groups are facilitated and provide mutual support in working toward self-sufficiency, as well as providing leadership opportunities for participants, particularly around voicing policy concerns regarding the public welfare system. The Child and Family Policy Center has supported the development of these groups, and a number of the stories in this report come from participants from Community Advisory teams.

her potential layoff is always looming. This fits with Sally's work pattern of moving in and out of temporary jobs. She has cycled on and off welfare since her daughter was born. Child care assistance could really help Sally, but while she is working she makes too much money to be eligible for any assistance. Sally continues to rely on friends to look after her daughter and pays them when she can.

Both the hypothetical cases and Sally's predicament are representative of many Iowa families with young children. Chart Four provides figures for Iowa on families with children under six living below 100% of the federal poverty level and below 200% of the federal poverty level.[19] Chart Four shows that a much larger proportion of families with pre-school children have incomes in the income ranges presented in the two hypothetical cases. While most of these families need child care for their children when they go to work, they also have limited financial ability to pay for that care.

In Iowa, there are 70,000 families below 200% of the poverty level with at least one child under six, and 103,000 children below the age of six in those families. While not the only children requiring child care while their parent or parents work, they certainly represent a group with the highest demands for that care[20] and only very limited resources to pay significant child care costs. Paying for this care is certainly difficult when the average cost for annual, full-time licensed child care or registered family day care in Iowa is

Chart Four. Poverty and Low-Income Status of Iowa Families and Children by Age of Child 1997-1999 Data—In Numbers and Percentage of All Children/Families



Source: Population Reference Bureau data analysis from U.S. Census Bureau.

[19] Population Reference Bureau data analysis from U.S. Census Bureau, Current Population Survey (March supplement), 1998 to 2000. This uses 3-year average of data from 1998-2000 CPS.

[20] Parents with school-age children also often require child care, either before-school or after-school care or both—although they do not require full-day care, as many parents of pre-school age children do. This analysis has placed a special emphasis upon families with very young children because they constitute the population of children with the highest needs and costs for child care.

$5,500 per child, let alone the $8,500 to $9,000 estimated annual costs of high quality, developmentally appropriate care for three and four year-olds (with a higher figure than that for infants and toddlers).[21]

Clearly, there is a need for subsidized child care for many low-income families, if these families are to realize significant economic gain through their employment. Families with the greatest needs for child care, those with pre-school children, are those most likely to have low incomes. In Iowa, the number of pre-school children in families with incomes below 200% of the federal poverty level ($23,220 for a family of two, $29,260 for a family of three, and $35,300 for a family of four)[22] is seven times greater than the average number of children served through subsidized child care in Iowa. While not all of these children require child care (in some families, one parent is not employed and can provide that care, and in other families parents schedule their work so one parent is always at home) and some can enlist family or friends to provide free or very inexpensive care, the vast majority have needs for at least some paid, formal child care. At the same time, these parents can afford to pay only very minimal amounts for that care, if they are to get ahead financially.

III. Changes in the Demand for Child Care

The increases in public funding for child care subsidies over the last decade have not occurred in a vacuum. They have reflected profound changes in the structure of work and family that have occurred over the last three decades in the United States.

The impetus for developing and expanding the federal Child Care and Development Fund and for enabling states to transfer TANF funds to child care services was based upon the new welfare philosophy of supporting work rather than welfare. This development mirrored a profound trend toward maternal workforce participation, even with very young children and in both two-parent and single-parent households. Chart Five shows this trend toward maternal workforce participation in Iowa both for families with pre-school aged children, and for families with only school-aged children.[23]

As Chart 5 shows, the rate of workforce participation of mothers of pre-school children has more than doubled since 1970, to 77% of all Iowa mothers in 1998 (when married and single-parent households are combined). This increase has occurred both in two-parent families and in single-parent families, although the increase has been larger for two-parent families and actually overtook that for single-parent families sometime in the 1980's.

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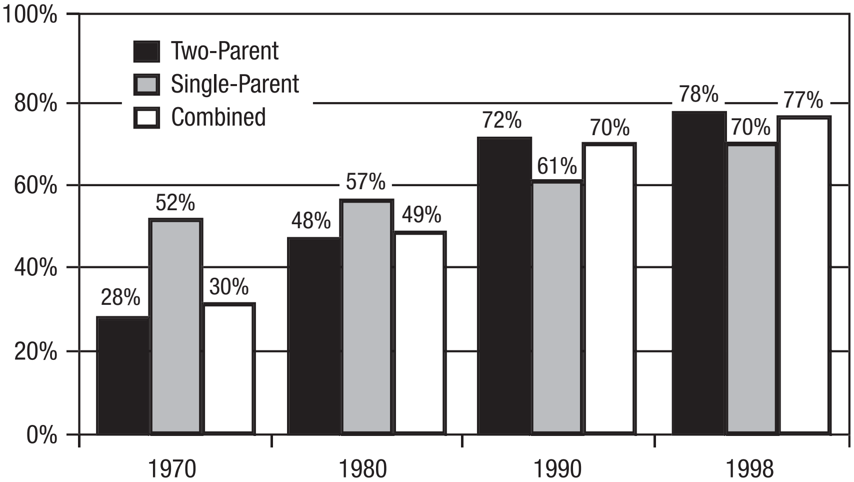
[21] There are a variety of methodologies that have been used to estimate the costs of high quality care. A good analysis of these is found in footnote 72 to the overview essay in the Financing Child Care volume of the David and Lucile Packard Foundation's *The Future of Children* series. The authors end up using the $8,500 to $9,000 figure in 1990 dollars, which would be substantially higher today. Similar figures are often cited today for three- and four-year old care. Gomby, Deanna, et.al., "Financing Child Care: Analysis and Recommendations," in The Future of Children, Vol. 6, No. 2 (Summer/Fall 1996). P. 24.

[22] The Economic Policy Institute has estimated that it requires approximately $30,000 to $35,000, or 200% of the federal poverty level, for a family of four simply to get by. Bernstein, Jared, Chauna Brocht, and Maggie Spade-Aguilar. *How Much Is Enough? Basic Family Budgets for Working Families.* Economic Policy Institute: Washington, DC: May, 2000. More detailed Iowa data is found in: Fisher, Peter, and Colin Gordon. *The State of Working Iowa: 2001.* The Iowa Policy Project: Mount Vernon, IA: 2001.

[23] It would be ideal to be able to report changes in workforce participation in a gender-neutral manner—by reporting for two-parent families on whether both parents, one parent, or no parents were in the workforce and by reporting for single-parent families on whether the parent was in the workforce. Unfortunately, such data cannot be constructed from 1990 and earlier census data. It has been maternal, rather than paternal, workforce participation, however, that has risen dramatically over the period from 1970 to 2000 and resulted in the increased demand for substitute care. While there are some stay-at-home and caregiving fathers while their wives work, this still represents a small percentage of all two-parent families and does not significantly affect the trend lines shown in Chart Five.

Chart Five. Iowa Workforce Participation by Mothers with Children Aged 0-5 by Type of Family



Source: Bureau of Labor Statistics, 1998: U.S. Census 1970-90.

These figures clearly show the huge growth in demand for child care over this period. Even for the period between 1990 and 1998 (the most comparable years available for Iowa's child care subsidy spending growth), the change has been pronounced. Approximately 20,000 more mothers of young children were in the workforce, with an estimated 30,000 children in those families.[24] Again, while not all these families require child care to enable them to work and a few are in an economic position to comfortably pay $5,500 to $8,000 or more per year for each child's full-time care, the majority require child care and many, because of their income, are in a limited economic position to pay for that care. Even though there are families with very young children who do not need child care or can comfortably pay for the full cost of care, there also has been an equivalent increase in workforce participation among families with children six to seventeen, some of whom also require at least partial child care (when the children are not in school).

In short, this growth of 30,000 additional very young children in potential need of child care from 1990 to 1998 can be contrasted with the actual growth of 8,350 in the number of children receiving subsidized child care between the roughly comparable state fiscal years 1992 and 2001. While there has been a dramatic increase in state child care subsidies for children in Iowa over the last decade, there has been a more dramatic increase in the number of children who require child care as a result of increased parental workforce participation.

The growth in the average monthly number of children served by child care subsidies also can be compared with the decline in the number of children receiving assistance under TANF during that period. From state fiscal year 1992 to 2001, the number of children in families receiving TANF benefits declined from a monthly average of 66,631 to a monthly average of 33,705, a reduction of 32,926 children. While not all families left TANF due to employment,[25] this reduction is almost four times the size of the increase in the number of children receiving child care subsidies.

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[24] Many families with children 0-5 have more than one child. Among low income families with children under six in Iowa (see Table Two) the average is 1.47 children for each family. Since the 1998 CPS data represent Iowa estimates, these figures are rounded.

[25] Kauff, et.al., *op. cit*. P. 16.

There is no single data source that can be used to calculate the actual increase in the need for child care because of parental participation in the workforce, nor the degree to which subsidies are required to make that work economically profitable for the family as well as for the employer and the state. The figures presented here, however, do put both the growth in Iowa child care assistance expenditures and child care subsidy program growth in context. They strongly suggest that, while there have been major increases in government support of child care through child care subsidies, the actual growth in demand for that support has been even greater.

IV. Overall Government Support for Economically-Challenged Families with Children

The Aid to Families with Dependent Children (AFDC) program was established in 1935 and was based upon providing a safety net of support to children who were deprived of a family breadwinner, usually due to death, divorce, or disability. AFDC provided a cash grant so that a parent, usually a single mother, could stay at home to care for her children. At that time, relatively few women were in the workforce and most occupations providing family sustaining employment were male dominated occupations that did not welcome women.

As times changed, the AFDC program began placing increased emphasis upon workforce participation by families. The 1970's and 1980's saw enactment of the WIN program and the JOBS program (through the Family Support Act of 1988), both designed to strengthen workforce participation and to deal with the fact that mothers in non-welfare families now worked in order to sustain their family's standard of living,[26] as well as to deal with the rise in adolescent and single parenting that some believed was related to the availability of public assistance.[27]

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, establishing the TANF and CCDF programs from the AFDC program and earlier child care funding streams, finalized this shift in welfare philosophy. It resulted in the major increases in support for child care and the dramatically reduced use of AFDC/TANF income supports.

Chart Six shows combined Iowa spending on AFDC/TANF welfare grants to families and child care subsidies since 1980, both in overall levels of real (inflation-adjusted) expenditures and as a percentage of Iowa's overall state budget.

As Chart Six shows, there has been a very significant decline in the overall level of support these two programs have provided to low-income families with children. In Iowa, maximum cash assistance payments under AFDC/TANF have not been increased since 1990 and currently stand at $426 per month, only slightly higher than the $340 ($771 in inflation-adjusted dollars) in 1980. This real decline in benefit levels was the major reason for the decline between 1980 and 1990. The decline between 1990 and 2001 was due in large measure to the caseload decline, although inflationary erosions to the cash assistance payment level also played a significant role.

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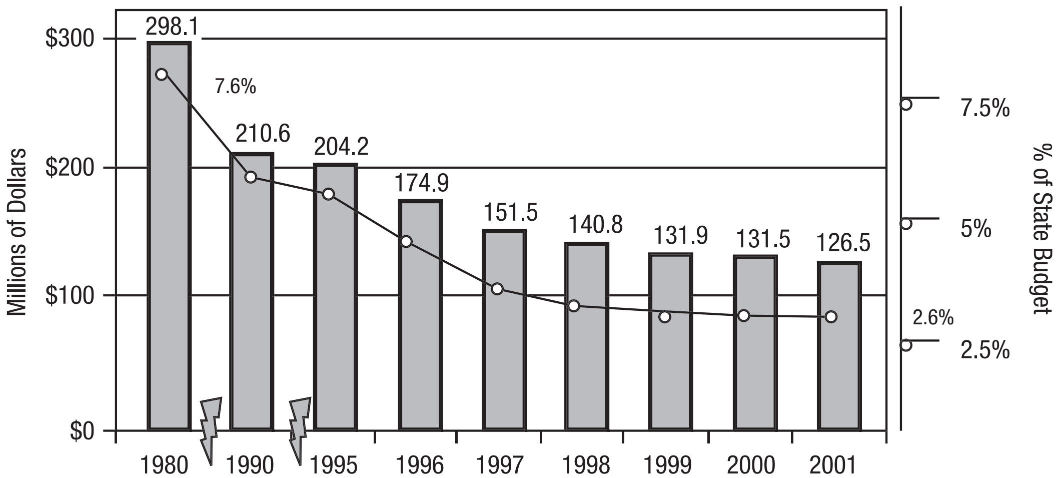
[26] According to Berlin and Sum, Americans retained their standard of living through declines in real wages over the last two decades through four actions: delaying marriage, having fewer children, having both parents work, and going into debt. Berlin, Gordon, and Andrew Sum. *Toward a More Perfect Union: Basic Skills, Poor Families, and Our Economic Future.* Occasional Paper 3: Ford Foundation Project on Social Welfare and the American Future: New York: 1988.
[27] Charles Murray was influential among conservatives in making the case for welfare reform. His book, *Poor Support*, argued that the generous welfare system had accounted for the rise in teen pregnancy, although there have been numerous responses that have disputed the empirical basis for this conclusion and the methodology that Murray employed.

Chart Six. Real (inflation-adjusted) Iowa Spending AFDC/FIP Benefits and Child Care Subsidies, Fiscal Years 1980-2001 in Dollars and as a Percentage of the Budget



Source: Iowa Department of Human Services and State Legislative Fiscal Bureau.

While the federal earned income tax credit has played a positive role and served as an additional income transfer payment for low-income working families, much of the earned income tax credit has simply countered the impact of federal social security increases over this period. In Iowa, the overall state and federal tax burden of low and moderate-income families did not improve at all between 1979 and 1993, when all forms of tax burden are considered.[28]

From a state financing perspective, over the last two decades Iowa has dramatically reduced its combined income and child care support to the lowest income segment of Iowa families with children.

V. Summary and Conclusions

This part of the paper has examined the economic side of child care funding in Iowa, in relation to family work patterns and child care needs. Expanded federal and state support for child care over the last decade, especially since the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, must be viewed in this context. The expansion in support for child care has not simply been a shift in philosophy regarding welfare and working families within an otherwise static economic system. Rather, it is reflective of much broader and deeper changes in the economy and their impacts upon the work status of families with young children.

[28] Between 1979 and 1993, the state and federal tax burden on a four-person household in Iowa earning $40,000 in 1993 real dollars (about the median income for that time) increased from 21.85% of income to 27.05% of income, the equivalent of a little over $2,000. During this period, the median family income of a family with children remained virtually the same. During the same period, a four-person household in Iowa earning $20,000 in 1993 dollars experienced the same overall tax burden as it did in 1979. Both the federal and Iowa's earned income tax credit helped offset the increase in federal Social Security and Medicare taxes. The Child and Family Policy Center currently is updating this analysis to 2001, which should show significant tax gains as a result of both state and federal tax cuts and the federal expansion of the earned income tax credit. A full assessment of government program expenditures ideally would include tax expenditures, but this is beyond the scope of the analysis presented here. Bruner, Charles, with Victor Elias and Michael Crawford. "The Family Impact of Iowa's Tax System," *Iowa Kids Count Special Report* (January, 1998).

Viewed in this context, the expansions in federal and state support for child care in Iowa, particularly through subsidizing child care, have only partially addressed the increased demand for child care subsidies, even for the period from 1996 through 2001. Although the increases in public funding are dramatic, the growth in need and demand have been even more dramatic.

Moreover, this growth in need and demand applies to a larger range of working families than those leaving welfare. Many have never been and never will be connected to the public welfare system. Although many of the federal and state changes in child care funding and support have emanated from welfare reform, the actual issues extend to a much larger group of working families with low or moderate incomes, a group which has become a much larger segment of the working age population. These working families have helped expand the workforce and produce the economic growth that the country has enjoyed over the several decades, but, as a result, they also have increased child care needs and issues to which government has only partially responded.

PART TWO: Affordability, Availability, and Quality Issues in Iowa's Child Care System

The first part of this report focused on the overall fiscal picture surrounding Iowa's child care subsidy program and its use of federal funding to support families needing child care. This part discusses how the state has used the expanded funding for child care to strengthen the child care system more generally and how that has addressed or failed to address issues of child care quality, as well as affordability and availability.

It has been publicly acknowledged that these are issues that Iowa needs to address. In 1998, Iowa elected a new Governor, Democrat Tom Vilsack, to succeed Republican Terry Branstad, who had served sixteen years as the state's Governor. It was the first time in thirty years that the Governor's office had switched political parties. Soon after his inauguration, Governor Vilsack spoke to the Iowa Early Childhood Care and Education Congress and acknowledged the following critical child care issues:

> *We know that 85% of Iowa's youngest kids are in child care during any given week. We know that there is a child care supply crisis in Iowa. We know that quality child care is out of the reach of many working families. We know that the child care system in Iowa has too many entrances, too many obstacles, too many detours, and too many holes. But what are we going to do?*[29]

This part of the paper discusses what actions have been taken on these acknowledged child care issues and needs, and what remains to be done. The first section deals with the issue of affordability and availability, including both fiscal and administrative aspects of Iowa's program. The second section deals with the issue of quality, with particular emphasis upon Iowa's use of CCDF quality set-aside funding. The third section deals with related state investments in early childhood, particularly with respect to school readiness and Community Empowerment funding. The final section deals with current state budget issues and their potential future impact upon state investments in early childhood.

I. Child Care Affordability and Availability

As the previous part of this paper showed, since 1996, Iowa's child care subsidy program has more than doubled the number of children it has served. Clearly, this has provided greater availability and affordability for child care for many families.

During this same period, the state also consolidated several different child care subsidy programs—an at-risk program, a transitional program, a program specifically for foster parents, and a program for current TANF recipients—into a single child care assistance program, administered by the same payment system. Prior to 1990, the Department used contracts to purchase slots at child care centers, subsequently making a change to using child care certificates. The consolidated system is based upon a certificate system. Parents can select a child care provider, which can be a licensed child care center, a mandatory registered group child care home (family day care with 7-12 children), a voluntarily registered family child care home (family day care with 6 or fewer children), a non-registered family child care home provider (unregistered family day care with 6 or fewer children), or an in-home child care provider.

[29] Governor Tom Vilsack Address to the 6th Annual Iowa Early Childhood Care and Education Congress, March 4, 1999.

To receive a subsidy payment, a non-registered or in-home child care provider must be approved by the state, which requires a criminal records and child abuse background check. Protective child care also is paid through the same system. Once approved, providers are paid by the state at a rate established by a market rate survey.

The movement from purchasing slots to certifying providers has broadened the options for families to find some type of child care arrangement, although it also has raised issues with respect to safety and quality (discussed in the section on quality).

This section discusses several different, but related, issues related to affordability and availability of child care in Iowa, including eligibility guidelines and waiting lists, co-payment levels and cliff effects, specific child care shortage areas, and administrative issues.

Eligibility Guidelines and Waiting Lists. During the late 1980s and early 1990s, Iowa established its eligibility guidelines for participation in its child care subsidy program at 150% to 155% of the poverty level, with a higher level for children with disabilities. As a result, Iowa maintained a waiting list for child care subsidies, with 8,000 children on the waiting list in 1993.

Iowa sought to eliminate waiting lists for state fiscal year 1994 by lowering its eligibility guidelines to 100% of poverty, a level at which it estimated all enrolling families could participate. As a result, waiting lists were eliminated.

In state fiscal year 1996, eligibility for Iowa's child care assistance program was raised to 110% of poverty. Because of increased funding, Iowa raised this eligibility to 125% of poverty in state fiscal year 1997, and 140% of poverty in state fiscal year 1998, where it has remained. During this time period, there were almost never waiting lists for service.

Halfway into state fiscal year 2001, demand for child care subsidies grew to exceed available state funding, and a waiting list was re-imposed. This waiting list grew to close to 3,000 families. This does not necessarily represent the full demand for subsidized care, however, as many families reported they did not sign up for the waiting list because they were told they would be unable to obtain assistance.

Through additional TANF funding (drawing down on the state's TANF surplus), the appropriation for child care in state fiscal year 2002 was increased to eliminate the waiting list. In July, 2001, at the start of the 2002 state fiscal year, the department eliminated the existing waiting list, requiring anyone previously on the waiting list to reapply. Those families who had been on the waiting list were sent a letter indicating that their previous application had been denied due to lack of funding, but that they could reapply now that funding was available and, if still eligible, could receive assistance. While it is uncertain whether or not a waiting list will need to be re-imposed in this fiscal year, in its recommendations to the Governor for state fiscal year 2003, the Department of Human Services has projected that it will again have to institute a waiting list as early as August, 2002.

Iowa generally has sought to use eligibility limits to manage the demand for child care with finite child care subsidy funds. In this way, Iowa generally has not treated applying TANF families, or families transitioning from TANF, differently from applying families who have not received TANF.[30] When the most recent waiting list developed, however, TANF families were exempted from the waiting list and guaranteed child

[30] All families can go to Child Care Resource and Referral agencies to learn about their options for child care, including the subsidy program, but they must apply for child care subsidies through the Department of Human Services. For TANF families, they can do so as part of their other contacts with the department on TANF-related activities and they are likely to be informed of their eligibility through those contacts. For non-TANF families, however, the application process requires an independent activity and a potential barrier to participation. This is discussed more fully in the section on administrative issues.

care subsidies, while families not on TANF were unable to access child care subsidies. Current policy provides that families receiving TANF are exempted from any waiting list that may be imposed.

At 140% of poverty for eligibility, Iowa currently ranks among the bottom seven states in child care subsidy eligibility. Compared with the federal allowable level of 85% of median family income ($36,972 for a family of three in Iowa), the 140% of poverty eligibility cut-off ($20,482 for a family of three) is just over half of what is allowable and covers only a fraction of those who are potentially eligible under the broader guidelines.[31]

Co-Payments and Cliff Effects. By selecting a low cut-off level for eligibility, Iowa does create a substantial "cliff effect" in its subsidy program, discussed below. Iowa provides complete subsidization for families with incomes below 100%, with a co-payment instituted for families between 100% and 140% of the poverty level. Depending on their income, families pay a half-day fee of $.50 up to $3.50. Therefore, a three-person family just below the 140% of poverty level having one child in full-day care would have a co-payment of $7.00 per day, or approximately $1,680 per year, equivalent to 8% of family income. If two children required full-day care, that could increase to 16% of income. For a two-person family (one adult and one child) at 140% of income ($16,254), the co-payment would be a little over 10% of total income.[32] While there have been proposals to limit the size of the co-payment to no more than 8% of income, depending upon the level of child care needed,[33] a number of families receiving subsidies must devote more than that amount of their income.

Small increases in family income that move a family above 140% of poverty, however, have a profound impact upon child care affordability. The co-payment of $1,680 covers only a small percentage of the rate ceiling for a pre-school child in a full-day licensed day care center ($5,040) or a registered family home ($4,320). Furthermore, a center or registered family home may be charging a higher rate than that for unsubsidized parents. In instances where the child care providers' rate is the same as that paid by the state, the family would experience an annualized increase of $2,640 to $3,360 in child care costs for going above the eligibility limit from what might be a $.10 per hour increase, as Roberta's story shows.

> *Roberta, the single parent of two small children, went onto TANF in May, 2000. PROMISE JOBS assisted her with child care so she could finish her education and get a better paying job. She got a job that paid $1,640 per month, and received a child care subsidy on the sliding fee schedule that required her to pay $150 per month for what she considered ideal care for her daughter, at a registered family day care home. Two months after her hire, Roberta received a $1,000 raise, which put her $16 per month over the eligibility guidelines for subsidized care. Immediately, her child care bill went up to $550 per month, or nearly one-third of her income. She was forced to move her daughter to a cheaper day care arrangement, which proved to be unreliable and very unsatisfactory.*

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[31] According to an Administration for Children and Families' report, there were 199,200 children at or below 85% of the state median family income, only 8% of which (15,700) were served by child care assistance subsidies. Administration for Children and Families. *1999 Access to Child Care for Low-Income Working Families.* Median family income is a measure of a state's general economic well-being, rather than a measure of a family's economic well-being. The prior part used 100% and 200% of poverty as indicators of underlying demand for subsidized care, as they better reflect family need rather than state economic condition.

[32] Iowa Department of Human Services Administrative Rules and payment schedule. The full co-payment table is provided in the Appendices.

[33] The Task Force recommendations are found in: Iowa Kids Count and Iowa Forum for Children and Families. *Early Childhood in Iowa: What Is Government's Policy Role?* Proceedings from a State Summit with National Expert Presenters and Responses from Iowa Policy Leaders. Des Moines, IA: 2000. P. 28-20. The national performance measure target is no more than 10% of income related to child care.

> *Although there have been several times when the provider has been neglectful in caring for her daughter, she doesn't know what else she can do.*[34]

It is not simply earned income that can affect eligibility, however, as Patty's story also shows. The cliff effect of Iowa's system creates many difficult choices for families seeking to improve themselves through increased employment and earnings.

> *Patty is a single mother of three children. After leaving a domestic violence situation for her own safety and the safety of her children, she was forced to seek public assistance to survive. After thirteen months on public assistance, Patty found a job that paid $11.36 per hour and received child care assistance to cover the cost of child care. Several months later she began receiving child support in the amount of $192.32 a month, putting her $101.00 over the eligibility level for child care assistance. Patty makes $1,692.32 a month, but it is not enough to pay all her bills in addition to the cost of child care. At the present time child care costs Patty $720.00 a month, consuming 43% of her total income.*

Patty has considered taking a job that pays less or decreasing her current hours, which would mean losing benefits. As a single mother, lack of affordable child care will definitely impact her employment and her long-term ability to remain off of welfare.

A general study of Iowa welfare leavers conducted by Mathematica Policy Research found that child care was a challenge that had interfered with work for almost one-third of the families (31%) interviewed, with 8% indicating they were forced to leave their job due to child care problems.[35]

A more intensive case study of sixteen Iowa families leaving TANF with very low incomes (50% of poverty or below), also conducted by Mathematica Policy Research, found that the "lack of affordable child care" provided a significant barrier for people to work and to earn higher incomes to support their families. The report cited a variety of reasons:

> A number of case study participants had chosen to stay home with their children rather than go to work. For most of them, the decision was driven by the high cost of formal child care. They did not have informal providers they trusted and they felt that formal care would cost them the majority of their paychecks.
>
> Only a few who had worked had received child-care assistance from the state. The reasons for not taking advantage of child-care assistance varied. One case study participant claimed that the providers she sought out would not accept children receiving assistance because it took too long to receive reimbursement from the state. Another was too frustrated with the system to apply; she felt that the paperwork was a hassle, the process took too long, and the information she needed to provide in her application was too intrusive. Another earned too much to qualify (although a large portion of what she earned went toward the cost of care).[36]

While many study participants depended on family and friends for frequent or sporadic help, the study also found that these families were reluctant to rely too heavily on that support and wanted to be more independent. They recognized that their family and friends were also low-income and they did not want to burden them too heavily.

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[34] Testimony at the Council of Human Services, July 2000.
[35] Sing, Merril, Heather Hill, and Linda Mendenko. *Work, Welfare, and Family Well-being*. Mathematica Policy Research, Inc. July, 2001. P. 16-17.
[36] Hill, Heather and Jacqueline Kauff. *Living on Little: Case Studies of Iowa Families with Very Low Incomes.* Mathematica Policy Research Inc., August, 2001. P. 33.

Specific Care Shortages. Surveys conducted by Iowa Child Care Resource and Referral (CCR&R) agencies have been very clear that child care is in particularly short supply in three areas: infant and toddler care, care during second shifts or other nontraditional hours, and care in certain rural communities. In addition, registered and licensed child care is in short supply for all age groups of children, including both pre-school and school-aged children.

The most recent Child Care Resource and Referral annual report indicated a 55% gap in the supply of child care for children five years and younger. The gap in the supply of before- and after-school programs was estimated to be even higher, at 82%. In that same report, CCR&R identified 4,597 programs serving 40,666 school-age children, out of 231,962 school-age children in Iowa.[37]

Requests for care is another way CCR&R identifies the need for care. Non-traditional hours care represented 14% of parental requests for care, while 10% of the requests were for overnight or weekend hours. Studies of welfare leavers have shown that a significant portion of the employment obtained by leavers, up to one-quarter of all employment, is for second or third shifts. Working the swing shift while trying to raise a child has been a significant burden for JuliAnn, another Community Advisory Team member.

> *JuliAnn is single mom in poor health, and lack of child care has been a major barrier to sustained employment. In 1997, JuliAnn was terminated from receiving state benefits after her income exceeded eligibility at $6.00 an hour. Due to a past domestic violence situation with her ex-husband, her eleven year-old daughter needed protective day care. Unfortunately, protective day care was not available in her community during the hours she worked. Her only solution was to leave her daughter at the Boys and Girls Club. She was afraid for her daughter's safety and well-being and was unable to keep a consistent work schedule. After working temporary jobs for nine months, she was forced to quit her job because of lack of child care. Eventually, a part time job turned into full employment and today she manages child care in partnership with her mom by working opposite shifts.*[38]

Parents from the Family Enrichment Center and Oakridge neighborhood who participated in an August focus group for this paper had the following suggestions related to the lack of accessible and affordable child care:

- *Parents need more available non-traditional hours care slots.* Many parents would like to take jobs during the 2nd and 3rd shifts, often because it is easier for them to attend school during the day and work at nights, or because they need time during the day to run errands, go to doctor appointments, meet with social workers, and do other necessary things for their families. In addition, some of the jobs that pay the best occur in the evening hours (2nd or 3rd shifts), but there are few centers or home-based providers that are willing to provide care at night.
- *More options need to be available for parents of children with special needs.* Parents with special-needs children require specialized care, which is difficult to find and even more difficult to pay for. At least one of the parents in the focus group had previously been forced to turn down a well-paying job in order to take care of her special-needs child, because there was no care available during the hours that the job required.

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[37] Iowa Child Care and Early Education Network Data/Information Systems Committee. *1999-2000 Child Care Status Report.* Iowa Child Care Resource & Referral: 2001.
[38] Child and Family Policy Center. *Community Advisory Team Newsletter.* Issue #2. November, 2001.

Administrative Practices. Families and CCR&R agencies have reported that some of the administrative practices involved in applying for and securing child care subsidy assistance can be detrimental to program participation and create barriers to involvement. While there is no state policy requiring face-to-face applications for child care subsidy, some local Department of Human Services offices require personal interviews, which in rural parts of the state can involve long commutes. A family with multiple children requiring care was informed it was ineligible to receive both a subsidy for one child and a slot within the wrap-around services program (discussed under quality) for another.

Until recently, the child care certificate was written for a specific child. If a parent had to move their child from one provider to another, a new certificate would have to be generated specifying the new provider, the rate paid to the provider, and approval following a records check if a non-registered provider. Under new policies, an agreement will be developed with a provider specifying the provider's rate. Approval for child care assistance will be communicated to the provider, and will apply for more than a specific child.

From the point of view of CCR&Rs, there often was not a seamless structure in place to insure that persons seeking a subsidy received advice about their child care options because the application process was not performed by the CCR&R agency.

In addition, the timeliness of certification and approval often did not fit with both the family's and the provider's need for a guarantee in payment. Parents frequently reported that some providers were very reluctant to accept a child into care, not knowing for sure that they would receive reimbursement from the state. A number of parents complained of the length of time it took the state to process their certification and begin paying for care.

At a public child care forum in Iowa City, providers also complained that the subsidy system did not allow parents who use subsidies to make up the difference in the cost of care if it exceeded the subsidy limit and indicated that some parents would have liked that opportunity to insure their children had good quality care. A voucher system, similar to housing vouchers, was recommended as an alternative to the payment process. None of the home care providers present at the forum stated they accepted subsidies, due to the awkwardness of the system and past negative experiences in receiving timely payments and navigating the payment process.

Some families also expressed reluctance to go to the Department of Human Services for help, even for child care, because they feared getting involved in the child abuse system. Whether real or perceived, these perspectives serve as barriers for some families in receiving child care subsidies.[39] A study by the Iowa State University Extension service also characterized the use of child care assistance by low-income families as very low and reported that, "Less than one in five children in some form of child care receives a state subsidy to assist with the costs of care,"[40] in part due to a reluctance to go to the state for support.

The latter concern could become more pronounced in the future, as the Department of Human Services now has transferred responsibility for child care subsidy applications to income maintenance staff,[41] rather than child care staff.

Overall, Iowa's child care subsidy program, as currently structured and despite a funding level of nearly $50 million in state fiscal year 2001, continues to have significant gaps in making child care available or affordable to meet family needs.

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[39] Hill and Kauff. Living on Little, *op. cit.* p. 23.

[40] *Family Well-Being and Welfare Reform in Iowa: A Study of Income Support, Health, and Social Policies for Low-Income People in Iowa.* Iowa State University: Cooperative Extension. September, 1999. P. 22.

[41] This is one of a number of changes made within the Department of Human Services to respond to budget cutbacks.

II. Child Care Quality

In the fall of 1999, Governor Vilsack, following up on his statement and subsequent commitment to the Early Care and Education Congress, established an Early Care and Education Task Force to make recommendations regarding Iowa's early care and education system. That Task Force early on decided that its overriding focus should be quality, and that affordability and availability issues should be addressed in the context of quality. The Task Force issued its recommendations for a multi-year and comprehensive approach to improving child care quality that included increases in training, regulation, reimbursement, and other forms of support.

With the exception of some decisions made at the local level to address quality issues with empowerment funds (to be discussed later), state actions taken to improve quality have been confined to those which have been funded either through changes in subsidy rates or through quality set-aside funds.

Subsidy Rates and Market Surveys. In state fiscal year 1996, the maximum payment rates for child care were based on a 1993 market rate survey, using the 75th percentile. They provided different payments for infant and toddler care, preschool care, kindergarten care, and school-age care by four types of providers: child care centers, registered group family child care homes, and family child care homes (whether registered or not). They also provided separate schedules for basic care and for special needs care.

These payments were increased for fiscal year 1998, based upon a 1996 market rate survey, but the kindergarten care category was consolidated into the school-age care designation. In addition, registered family child care homes were distinguished from non-registered homes, with the latter receiving no adjustments in payment rates.

The maximum payment rates were again adjusted in fiscal year 2001, based upon a 1998 market rate survey, with payment rates for non-registered homes still frozen at a half-day rates of $8.19 for infant care, $7.19 for pre-school care and $7.36 for school-aged care.

The increases over the five years for basic care rate ceilings varied from 15.9% to 31.6%, depending upon the age group and the type of care, with an overall average increase of 22.1%. The increases over the five years for special needs care averaged 42.2% for registered group homes and registered family homes. It increased 104% for center-based infant and toddler care, although it actually declined slightly for preschool and school-aged special care.[42] The consumer price index rose over this period by 9.7%, so the increases for registered or licensed providers represented gains in real (inflation-adjusted) dollars.

Though these increases were not an explicit strategy to improve quality, quality has clearly been shown to be related to reimbursement rates. Therefore, the market survey adjustments that occurred over this period for registered care can be considered to have had some impact upon quality, although the reimbursement rates still remain quite low.

The decision to freeze payments for non-registered care is intended to provide an incentive for non-registered providers to become registered, which presumably moves in the direction of greater quality. At the same time, however, the reimbursement rate for unregistered providers has been devalued by inflation over time, resulting in fewer resources for those providers to provide developmentally appropriate services and supports. In addition, unregistered care has been of great concern to child care advocates generally, and Iowa CCR&R agencies in particular, regarding safety and quality of care.

[42] Iowa Department of Human Services administrative rules and payment matrices. The Appendices provide the most current payment rates.

Overall, however, the biggest expansion in the number of children served in regular subsidized child care and in protective child care between state fiscal years 1996 and 2001 occurred in non-registered care as opposed to registered or licensed care. Non-registered care increased from 40.2% to 43.3% of all regular subsidized care in that period (the most common type of care in both years), while care in child care centers dropped from 39.5% to 33.8% of all care during that period, although both had large numeric increases. Non-registered care increased from 17.2% to 20.4% of all subsidized protective care during that period, while care in child care centers dropped from 62.4% to 50.9% of care, the latter an actual small numeric drop as well as a proportional decline.[43] While it is a matter of policy that protective care is to be delivered in a registered or licensed setting, it may be provided in a non-registered setting when no other provider can be secured.

While the increased funding for child care assistance has raised the number of children receiving subsidized care and, therefore, addresses some issues of availability and affordability, the proportionate use of registered or licensed child care, one indicator of quality, has not risen.

Quality Set-Aside Funding. The major, explicit efforts to improve child care quality in Iowa have been conducted through the quality set-aside funding. These 4% set-aside funds have been used for the following purposes: (1) expanding wrap-around child care grants; (2) funding Healthy Child Care Iowa; (3) funding child care home consultants; and (4) supporting CCR&R agencies, particularly in providing referral services for parents, consumer education, and training.

Overall, this has involved $3,017,409 in funding in state fiscal year 2001 for wrap-around child care grants and $2,345,919 in funding for the remaining three funding areas.[44] Each of these quality activities is described below.

(1) Wrap-around child care. The largest single use of the quality set-aside funding has been for an Iowa program established before the CCDF came into being that provides wraparound grants to families whose children attend one of four core enriched pre-school programs—Head Start, Shared Visions (a state Department of Education pre-school program modeled after Head Start), early childhood special education, or Title I pre-school programs. The parents must meet subsidy guidelines and the programs then arrange for full-year, full-day child care that "wraps-around" their pre-school program. The care may be provided in any number of ways, including extending the "core pre-school program" day to a full day, or partnering with a child care center to provide the child care.

This has been a very popular Iowa program, one that has enabled many working families to take advantage of Head Start and other enriched pre-school programs that they otherwise might not have been able to use. The wrap-around program has increased its overall funding level from $2.02 million in state fiscal year 1995 to the $3.02 million level in 2001, serving 1,277 children.[45]

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[43] Department of Human Services, response to Request for Information Request # 640 from the Iowa Legislative Fiscal Bureau, October 23, 2001. A full enumeration of the figures, including both numbers and percentages, are provided in the Appendices.

[44] E-mail from Jody Caswell, Program Manager, Child Care Unit, Iowa Department of Human Services, to Elizabeth Marmaras, October 5, 2001.

[45] *Ibid.* These children are not included in Charts One or Seven, although this really represents a form of subsidized child care for working parents. The Appendix contains the state fiscal year 2002 budget and subsidized child care slots that include both the wrap-around funding and state-empowerment funding, giving the most complete picture of Iowa's child care subsidy and assistance program available. Unfortunately, it was not possible to collect this information for any other fiscal years.

(2) Healthy Child Care Iowa. A second use of quality set-aside funds has been to support registered nurses working in each of the five child care resource and referral agencies throughout Iowa. These nurses are available to provide technical assistance to child care homes and centers, as well as parents, both for addressing general health issues and concerns and to address special health care needs.

(3) Child care home consultants. A third use of quality set-aside funds has been to fund six home consultants to work with family child care providers to increase the number of registered home providers and improve compliance with registration requirements.

While Iowa is just beginning efforts to implement demonstration sites for a T.E.A.C.H. program, a related effort to improve quality and availability began in 1997, when the state implemented a pilot "Four-Level Child Care Home Registration" program that has since been introduced in twenty-one of Iowa's ninety-nine counties. The four-level program assesses registered child care programs and assigns them a level, based upon the number of children in care, the space available for child care, and the provider's education and experience.

(4) Child Care Resource and Referral agency activities. A major component of Iowa's use of the quality set-aside funding has been the implementation of training for improved infant and toddler care, modeled after a system developed for Kansas. The goal is to establish a network of trainers who will work in concert with an infant and toddler specialist located in each CCR&R agency, to provide an infant and toddler training curriculum to child care providers across Iowa.

Overall, quality set-aside dollars in Iowa have been used for improving specific aspects of Iowa's child care system, funding some innovative practices designed to tackle specific child care concerns, such as making health expertise available, and connecting Head Start and other enriched pre-school programming with all-day care.

At the same time, however, they have represented voluntary programs and options that have not significantly changed the regulatory landscape for child care that might improve child care quality on a systemic basis.

Use of Quality Child Care Arrangements by Low-Income Families. Even apart from the use of quality set-aside funds to improve child care quality generally, there are specific issues regarding the type of care low- and moderate-income families—whether receiving subsidies or not—use compared with individuals with more income and therefore more ability to pay for the cost of quality care. Using the 75th percentile of a market survey as a payment standard in itself provides some barriers to families using the subsidy in securing care from those providers with rates above the 75th percentile.

There is limited quantitative data on the quality of child care arrangements that families participating in the child care subsidy program receive, although anecdotal data and CCR&R survey data suggest that obtaining even safe and reliable child care is problematic for many low-income families, both those who are eligible for the child care subsidy and those who are not, but have incomes below 85% of the median family income. Molly's story is a good example of a parent having to make a child care decision that was less than ideal, based on cost.

> *Molly worked temporary jobs and relied on a neighbor to watch her four year-old son. When her neighbor was not available, she could not work. Her neighbor was a chain smoker, had several other unhealthy habits, and had no experience with children, but was the only one Molly could find that would accept the subsidy payment she could receive.*

Some data acquired from Polk County (which includes Iowa's largest city, Des Moines, and represents 12% of the state's population) provide revealing information on this subject. Polk County has made a conscious effort through its empowerment funding and United Way and other local support to improve the quality of child care and, in particular, support child care centers in achieving NAEYC accreditation.

Polk County now has twelve NAEYC-accredited centers out of 177 licensed centers in the county. Together, the NAEYC centers serve 1,363 children, of whom 76 are subsidized, or 5.6% of all children in such care. The total number of children receiving subsidies in Polk County is 2,231, of an overall child care enrollment in known care of some sort of 13,550, or 16.5% of all children in care.[46] These figures indicate that children receiving subsidies are under-represented in what can be considered Polk County's highest quality center-based care systems, NAEYC-accredited centers.

In addition, the non-subsidized children served in those NAEYC-accredited centers are predominantly from families with incomes well above the median family income. Very few children are from families who, from the sliding fee schedule data from those centers, fall in the range of 140% of poverty to 85% of the median family income. In fact, families with incomes in that level (of moderate means but ineligible for subsidies) are even less likely than families with incomes below that level to have children in NAEYC-accredited care.

The Polk County data suggest that low-income families who do not have the benefit of child care subsidies have an even more difficult time affording or obtaining quality child care arrangements than those with subsidies, although those with subsidies are much less likely than families with higher family incomes to have children in quality care.

While all families face challenges in securing quality, stable, and dependable child care, low and moderate-income families are the least likely to have children in at least the highest quality settings, as measured by accreditation.

III. Related Iowa Investments in Early Childhood

The Early Care and Education Task Force was one of three Governor's Task Forces that made recommendations regarding child care. The Governor's 21st Century Workforce and the Governor's blue-ribbon Iowa 2010 Strategic Planning Group also called for improvements in child care services as a prerequisite for economic growth and development.

While these recommendations have not resulted in specific new state funds for child care, additional Iowa funding has been secured on the more general topic of the needs of very young children and their families in achieving the First National Educational goal, that "all children start school ready to learn."

In his second condition of the state address, Governor Vilsack highlighted early childhood and school readiness as a priority goal:

> Iowa must be the leader, a nationally recognized leader, in early childhood education. …We propose increased funding…to improve early childhood education and additional resources to provide greater access to quality child care. Let us pledge together to rewrite the nation's number one educational goal. …Let it read that in Iowa, as a result of our efforts, every child shall begin learning at birth and be ready to learn more by the time he or she reaches kindergarten.[47]

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[46] Original data collection completed by Child and Family Policy Center staff for this paper and: Bruner, Charles. *Polk County Early Childhood Business Case.* Human Services Planning Alliance: Des Moines, IA: November, 2000. Some of the data also is found in: E-mail from Tammy Christ, Iowa Department of Human Services, September 17, 2001.
[47] January 11, 2000 Condition of the State Address, as reported in: *Early Childhood in Iowa: What Is Government's Policy Role? op. cit*. P. 24.

The funding the Governor proposed primarily involved an increase to the state's empowerment funding (and the deployment of additional TANF and CCDF federal funds for child care, which has been described earlier). Since 1995, the primary increases in state investments in early childhood have been in the community empowerment program or the Shared Visions program, both of which are described below.

Empowerment funding. In 1998, the Iowa General Assembly established an Iowa Community Empowerment Board and a process for establishing local Community Empowerment Areas and Boards that could then access special funding for early childhood services. These local Boards were designed to be collaborative governance structures to plan for comprehensive, community-based service systems for children and families, with an initial focus on children birth through five and their families.

In 1999, local Community Empowerment Boards could apply for $5.2 million in state funding, and $1.8 million in TANF funds. Funding was increased to $10.4 million in state funding and $3.8 million in TANF funding for state fiscal year 2000, and $15.4 million in state funding and $6.2 million in TANF funding for state fiscal year 2001. The impetus behind Community Empowerment, in part, was to increase funding for early childhood services and, in part, to create more community-based planning and decision-making structures.

Community Empowerment funding can be used for child care enhancements, but it also can be used for enriched pre-school programs, for parenting education or family literacy or other family support programs, or for health-related services. Empowerment funding is not to be used for child care subsidies per se, or for families with incomes below 140% of poverty, but it can be used for grants to providers to increase their capacity. In fact, at least 70% of the state portion of the funding, designated as school readiness funding, was required to be used for parent education-related activities. Local communities determine where their needs are greatest, but the goals for community empowerment are more to improve school readiness than they are to provide for child care availability and affordability.

Longitudinal data is not available on how communities have spent their funding, but the Department of Human Services (which administers the TANF portion) and the Department of Education (which administers the state portion) did some categorizing of community uses of empowerment funds for state fiscal year 2002.

Drawing estimates from this data, approximately $4.5 million in funding ($2.3 in state funds and $2.1 million in TANF funds) has been used to help develop additional child care or otherwise cover some of the costs to parents of child care. Approximately $4.1 million in funding ($1.2 million in state funds and $2.9 million in federal funds) has been used for quality-related activities for child care, including training activities, additional child care home consultants, and, at least in Polk County, a differential payment system to encourage quality. This represents $3.5 million overall in state funding that has not been included in Chart Two in this paper, which, if included, would result in a slight overall increase in state funding for child care from 1996 to 2001.[48]

In addition to direct funding support, Community Empowerment funding also has stimulated activities and interest in early childhood, and enabled some communities to develop demonstration programs to enhance child care that could be models for the state.

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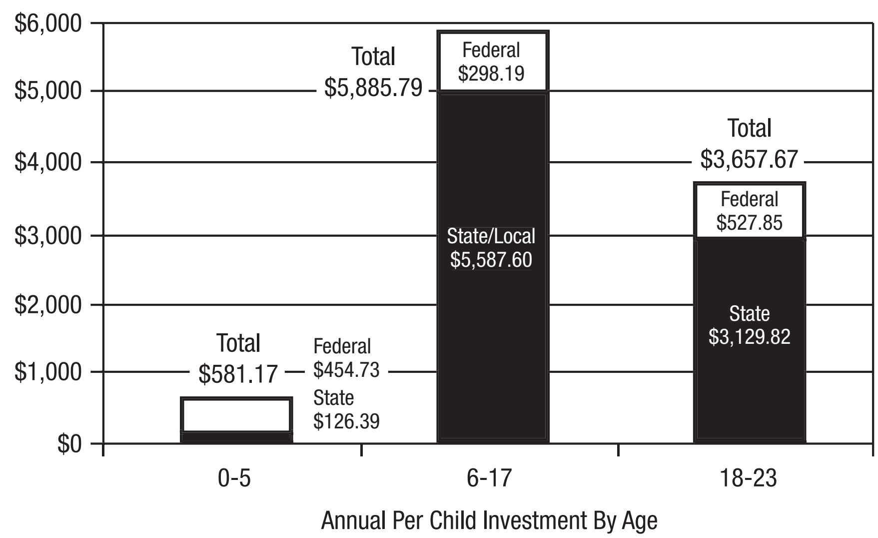
48 Special calculations provided by the Iowa Department of Education and the Iowa Department of Human Services. More detailed information is provided in the Appendices in the state fiscal year 2002 budget.

Shared Visions. In addition to empowerment funding, Iowa established a state-funded Head Start-like program, Shared Visions, in 1989. Shared Visions provides comprehensive, child development programs in 112 sites throughout the state, serving children who come from families with incomes below 130% of the poverty threshold. It, therefore, expands eligibility for enriched pre-school children to a level above that provided under federal Head Start guidelines. Shared Visions has received modest increased funding over the years. In state fiscal year 1996, Shared Visions received $4.625 million in funding. In fiscal year 2001, this funding increased to $7,637,721, over a $3 million increase. While not serving the needs of full-time working parents for child care, Shared Visions is based upon providing quality pre-school services and contributes to meeting the needs of children from low-income families.

Overall Investments in Early Childhood. Clearly, Iowa has devoted significant policy attention, and some funding, to early childhood issues and concerns. It is important, however, to examine this level of funding in some context. All public investments in early childhood also can be compiled to give an overall picture of the size of the investment in very young children. Chart Seven provides a picture of these public investments in developmental and educational supports, contrasted with public investments in school-aged (6-17) children and young adults (18-23), on a per child or young adult basis. As Chart Seven shows, current public (federal and state) investments in the development of very young children are small when contrasted with those invested in school-aged and college-aged children and youth.

Chart Seven. Comparative Iowa Investments in Developmental and Educational Supports: By Child or Young Adult Age, 2001 State Fiscal Year



Source: CFPC Analysis. See Table Seven in Appendices for data sources.

IV. Current Budget Issues

Budget Crises. Currently, a number of states are reporting serious budget problems, with Iowa one of the most severely hit. In fact, a dramatic slowdown in state revenues caused the Governor to revise his first FY2002 budget proposal to the General Assembly in January, 2001 and cut more than $200 million from that proposal out of the overall $4.9 billion budget. The Republican-controlled General Assembly called for even deeper cuts. The result was a reduction of nearly three hundred million from the Governor's originally proposed budget, although the K-12 funding was held harmless. Most other agencies, however, took 8% cuts to their initial proposed budgets, which had received only cost-of-living adjustments in the Governor's original budget.

While the FY2002 budget provided for increases in child care and empowerment through TANF funding, that was achieved through spending down half of the state's TANF surplus. This surplus will eventually have to be replaced by other funding if these increases are to be sustained in future years.[49]

Since the start of the 2002 fiscal year, revenue has been flat (even before the September 11 tragedy), although the budget was based upon a projected 5.5% growth in revenues. In November, the Governor ordered an additional across-the-board cut of 4.3% to the state budget, revising projected growth downward to 1.9% as the result of the state's revenue estimating conference projections. Actual revenue through November 26th is 1.7% below last year's level, however, making additional cuts likely in FY 2002, and raising even more serious budget questions for FY 2003.[50]

Currently, there has been a general maintenance of child care state spending commitments within the state fiscal year 2002 budget. This is in large part the result of the maintenance of effort and matching requirements in the federal legislation and the fact that most of the funding is federal. As part of the 4.3% across-the-board reduction, CCR&R agencies were cut by $200,000, more than a 20% actual cut to their budgets, in part because this particular decrease does not jeopardize Iowa's maintenance of effort requirements. Further, there are significant staffing reductions in the Department of Human Services and elimination of many local offices, which may make access to workers more problematic for families seeking child care help. Finally, if TANF caseloads continue to rise, the use of TANF funds for child care and other services could be substantially jeopardized, even for the 2002 fiscal year.[51]

Despite the stated desire by many policy makers to improve child care and child care funding support in Iowa, without a significant revenue source (e.g., tax increase) or major redirection of funding from other sources, it appears that Iowa will struggle simply to maintain its current commitments and obligations.

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[49] Department of Human Services. August 30, 2001 table, "TANF Surplus Projections through SFY02 Based on Current Obligations and Final Appropriation for SFY02." According to this table, the TANF surplus at the end-of-state fiscal year 2001 was $26.4 million, with $12.8 projected at the end-of-state fiscal year 2002, with a note that $11 million of the remaining surplus has been assumed in fiscal year 2003 budget recommendations. This would essentially completely eliminate the state's surplus and require subsequent years to find alternative funding to TANF to continue the same level of service.

[50] "Iowa fiscal outlook worsens," *Des Moines Register,* Wednesday, November 28, 2001.

[51] E-mail from Deb Bingaman to Elizabeth Marmaras, *op. cit.*

Conclusion: Implications for Federal Reauthorization and State Actions

The first part of this report placed Iowa's investments in child care assistance in the context of the needs of families for assistance and the changing demographics that have produced increased demand for that assistance. The basic findings from this analysis are clear and straightforward:

1. Federal TANF and CCDF funding have dramatically increased state-supported child care in Iowa.
2. Many families working in low-income employment need child care subsidies if they are to experience economic gain (or avoid economic loss) through employment.
3. The growth in child care subsidies has not kept pace with the increases in the numbers of low-income working families needing subsidies to stay ahead economically.
4. While child care subsidies have increased, overall state support for low-income families has declined substantially, when both child care subsidies and welfare payments are considered together.

The second part of this paper examined a variety of administrative and financing issues with respect to the system. The findings from this part are also clear:

1. The current subsidy system does not insure quality care or address specific care shortages.
2. There are very substantial cliff effects resulting from Iowa's low eligibility guidelines for participation in the subsidy program.
3. There are shortages in the availability of certain types of care that pose additional barriers to families seeking to improve themselves and their children through employment.
4. The majority of the expansion in child care subsidies has been for non-registered care, rather than for licensed or registered care, raising issues of minimum quality.
5. Low-income families, both those with subsidies and those without, can make very limited use of high quality (accredited) care.
6. While there is strong rhetorical support for improving early care and education in Iowa and some promising programs, the overall state funding commitment is very small.

Federal Reauthorization Issues. Clearly, much of the responsibility for improving Iowa's child care system rests with Iowa. At the same time, however, continued and expanded federal support, through both TANF and CCDF, is essential if even the current level of commitment is to be maintained (especially as Iowa faces major revenue shortfalls). Federal adjustments need to be made to account for the impacts of inflation, as well as for the increases in workforce participation of TANF families that have been achieved.

In addition, although the data presented in this report is from Iowa, the demographic changes and dramatic increases in the need for child care are common to all states, although they may have slightly different magnitudes.

In particular, there has been a dramatic increase, which is likely to continue across the country,[52] in the number of working families with low and moderate incomes who have never been connected to the wel-

[52] Iowa has led the country in workforce participation of both, or the only, parent of both pre-school and school-age children. While a recession may temporarily depress employment, in the long-term it is expected that other states will move toward Iowa's current level of parental workforce involvement, even if Iowa's rate of increase slows or levels off.

fare system but who require substitute care to be in the workforce. Welfare reform has, to some degree, shifted the debate from what government should do to insure workforce participation by those who can work to what government should do to insure that working parents can support their families. In this respect, there should be a *Working Parent Child Care Equivalency Act* that guarantees some level of subsidy to working families with child care needs, at least working parents with pre-school children. This subsidy should truly covers those costs, either through an adjustment and refundability of the federal child care tax credit or targeted expansion of CCDF for working parents, or both.

In addition to continued and expanded federal funding support, the maintenance of effort provisions and the quality set-aside have helped to insure that Iowa did continue its state funding commitment and give attention to issues of quality. Continued federal requirements to maintain state funding efforts and incentives to expand state funding support, particularly in the quality area, can aid in maintaining existing and leveraging new state funding. This may be particularly important in the current state fiscal climate, where many states are facing severe revenue downturns and certain unavoidable state expenditure commitments, leaving more preventive services and supports especially vulnerable.

State Actions. Iowa has a number of reports that provide direction for improving the state's child care system. Iowa has the knowledge base and expertise to substantially improve that system. Part of the answer lies in expanding existing state programs and their eligibility guidelines and reimbursement systems for child care and education, coupled with higher expectations and regulatory requirements for the child care system. Part of the answer also lies in supporting community-based efforts, such as Community Empowerment, that address child care as part of an overall early childhood system that can ensure child safety and well-being and achieve the first national educational goal of school readiness.

In the long term, it is important for policy makers to undertake a comprehensive examination of both the costs and benefits of investing in early childhood. Currently, public (federal, state, and local) investments in the development of very young children are very small, compared to those invested in school-aged and college-aged children and youth. Nevertheless, the possible returns on investments in early childhood education from averted problems and social costs later in life are significant.[53]

While reauthorization and expansion of federal funding support under CCDF and TANF can contribute to better meeting the need for child care subsidies and supports, the state must dramatically increase its investments as well.

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[53] Arguments for investing in early childhood come from diverse sources, and not just the child advocacy and early childhood care community. "Stop Crime: Invest in Kids" is a national, research-based effort to promote prevention investments, many in early childhood, based in the law enforcement community. The Committee for Economic Development, a business and education partnership, long has supported pre-school programs and other early intervention services for young children. The business-oriented RAND Corporation has taken a strong role in examining the cost benefits of early childhood. Karoly, Lynn, et. al., *Investing in Our Children: What We Know and Don't Know About the Costs and Benefits of Early Childhood Interventions.* RAND: Santa Monica, CA, 1998. There is an increasing body of evidence that high quality child care improves child outcomes and poor quality child care threatens them. In particular, see: Vandel, Deborah and Barbara Wolfe. *Child Care Quality: Does It Matter and Does It Need to Be Improved?* Office of the Assistant Secretary for Planning and Evaluation, United States Department of Health and Human Services: Washington, DC: May, 2000.

Methodology

This report was funded by the Ford Foundation, with the support of the Center for Law and Social Policy, to examine the Iowa's child care policies and funding efforts since the passage of the Personal Responsibility and Work Opportunities Reconciliation Act of 1996. The Child and Family Policy Center used multiple sources to collect this information, including focus groups, data collection and research in the field.

Data Collection. Gathering information on funding child care in Iowa proved to be challenging because of the many changing funding streams involved, inconsistencies in the records from year-to-year, and even variations in reporting on the numbers of individuals served in programs.

Policy Center staff worked with many different agencies to collect and organize information about funding dedicated to child care, the child care assistance (CCA) program, and Community Empowerment, and about the involvement of families in the welfare and child care assistance systems. Several requests for information concerning child care funding were handled by the State of Iowa Legislative Fiscal Bureau and the Department of Management. Other information around the CCA program was provided by Child Care Resource and Referral of Central Iowa and several child care centers in Polk County. The Iowa Department of Human Services provided most of the baseline information about the CCA program, and details about AFDC/TANF funding and participation. The Iowa Department of Education provided data on the use of that segment of the Empowerment program that it funds.

Focus Groups. Informal focus groups were held to get input from participants in child care assistance, resource and referral, and the Iowa Department of Human Services. These discussions provided valuable insight to how policy and reality coincide in government child care programs that assist Iowans.

Research. In the past, the Child and Family Policy Center has conducted research related to child care and early education, which was a helpful foundation for this report. When used, studies conducted by the Child and Family Policy Center and other sources, including ISU Extension, Iowa Child Care Resource and Referral, and Mathematica Policy Research Inc., were referenced in the paper.

Personal Stories. Informal interviews were conducted with members of the Iowa Community Advisory Team (C.A.T.), who provided stories based on their experiences with the child care assistance system. The Community Advisory Team was established in July, 1999 and is part of an initiative funded by the Joyce Foundation to address the impact of welfare reform in Iowa. C.A.T. is designed to empower low-income parents to become active participants in determining policies that affect their families. The Child and Family Policy Center, together with the Department of Human Services, developed C.A.T. to enlist consumer voices to address system change issues and barriers to employment for families living in poverty. C.A.T. members who have been focusing on the need for child care for working parents in Iowa provided this study with several opportunities to identify specific stories, including their own testimony at the Council on Human Services and their contributions to the quarterly CAT Newsletter.

Once completed, the report was subject to review for accuracy by a number of individuals at the Iowa Department of Human Services, Iowa Child Care Resource and Referral and others. The comments they provided were incorporated into the report.

Appendices

These appendices include the sources for most of the data in the Charts and Tables presented in this report. In addition, they provide some additional information about Iowa's child care subsidy payment system. It is arranged as follows:

1. Table One: Annual Childcare Expenditures for the State of Iowa: Chronology of Usage, Cost Per Child, and Total Payments From State Fiscal Year 1992 to State Fiscal Year 2001 (complete data for Chart One in paper).
2. Table Two: Iowa Child Care Expenditures by Type and Funding Source: State Fiscal Years 1996 to 2001 (complete data for Chart Two).
3. Table Three: Taxes and the Relationship Between Gross and Disposable Income: Various Scenarios [complete data for Chart 3 (except for $0 income, calculated separately) and for four-person family scenario].
4. Table Four: Poverty and Low-Income Status of Families and Children by Child Age: Iowa and the United States, 1997-1999 CPS Estimates (complete data for Chart Four).
5. Table Five: Iowa Workforce Participation of Mothers with Children 0-5, by Type of Family (complete data for Chart Five).
6. Table Six: Real (Inflation-Adjusted) Iowa Spending on AFDC/TANF Benefits and Child Care Subsidies, State Fiscal Years 1980-2001 (complete data for Chart Six).
7. Table Seven: Current and Proposed State Funding for Early Childhood Services, State and Federal Funding by Child Age, State Fiscal Year 2001 (complete data for Chart Seven).
8. Table Eight: State Fiscal Year 2002 Appropriation for Child Care Services and Supports and #'s Served, by Funding Type and Location.
9. Table Nine: Number of Children Served by Child Care Subsidy by Type of Child Care Setting, State Fiscal Years 1996 to 2001.
10. Table Ten: State Reimbursement Schedule for Different Types of Providers.
11. Table Eleven: State Co-Payment Schedule for Families in Subsidized Child Care.

Table One: Annual Childcare Expenditures for the State of Iowa: Chronology of USAGE, COST PER CHILD, and TOTAL PAYMENTS From State Fiscal Year 1992 – State Fiscal Year 2001.

Fiscal year	Average # of children served per month	Average cost per child per month	Total $ expended
1992*	6,311*	$211*	$14,666,000*
1993	7,811	$239	$22,426,969
1994	5,000	$238	$14,327,437
1995	6,890	$243	$20,057,785
1996	6,485	$250	$19,463,523
1997	6,584	$259	$20,459,578
1998	8,107	$289	$28,096,728
1999	10,356	$294	$36,412,383
2000	13,741	$291	$47,829,468
2001	14,261	$292	$49,927,620

*Figures for SFY1992 include data from only 11 months (August 1991-June 1992) due to missing data from the data source. For an annual figure, this number was multiplied by 12 and divided by 11 to yield: $15,999,272, which was used in Chart One.

Source: *The Monthly Day Care Report,* Iowa Department of Human Services.

Table Two: Iowa Child Care Expenditures by Type and Funding Source: State Fiscal Years 1996 to 2001

	FY96	FY97	FY98	FY99	FY00	FY01
Child Care (Regular and Protective)						
State	$12,745,253	$15,860,144	$14,846,535	$10,129,003	$11,798,771	$10,706,397
CCDF		$5,692,018	$17,551,861	$20,222,188	$23,184,365	$16,670,415
TANF			$1,214,089	$6,482,959	$17,514,411	$22,519,567
Other Fed	$9,843,337	$3,655,645	$192,322	$5,515,182		
Other State Funds						
Promise Jobs	$966,819	$596,600	$842,548	$1,012,914	$215,641	
R&R	$636,622	$636,641	$403,904	$204,719	$636,641	$636,641
Other R&R	$49,017					$37,500
Foster Care Day Care		$69,046	$3,788	$404		
Foster Care Decategorization		$738,203	$1,039,811	$1,000,084		
Quality Activities		$35,000	$35,000		$43,000	$4,000
Other Quality Activities	$73,526					
Other State Total	$1,725,984	$2,075,490	$2,325,051	$2,218,121	$895,282	$678,141
Other TANF Funds						
Empowerment and Earmark				$1,610,076	$3,737,649	$6,983,632
Other CCDF Funding						
Promise Jobs			$1,470,026	$1,761,881	$3,392,941	$3,285,550
R&R			$238,402	$579,788	$1,556,154	$1,736,172
Foster Care Day Care		$24,723	$4,548	$31		
Foster Care Decategorization		327,100	$817,414	$697,340		
Quality Activities			$1,240,837	$2,540,736	$2,965,869	$3,576,123
Other CCDF Total		$351,823	$3,771,227	$5,579,776	$7,914,964	$8,597,845
Other Federal Funding						
Promise Jobs CCDBG		$1,027,087				
Promise Jobs IV-A	$1,735,303					
R&R CCDBG	$527,983	$575,675		$1,199,500		
Quality Activities CCDBG	$1,520,761	$2,074,187	$1,692,398	$546,272		
Total Other Federal	$3,784,047	$3,676,949	$1,692,398	$1,745,772		
Total State	14,471,237	$17,935,634	$17,171,586	$12,347,124	$12,694,053	$11,384,538
Total CCDF		6,043,841	$21,323,088	$25,801,964	$31,099,329	$25,268,260
Total TANF			$1,214,089	$8,093,035	$21,252,060	$29,503,199
Total Other Federal	13,627,384	$7,332,594	$1,884,720	$7,260,954		
Grand Total	**28,098,621**	**$31,312,069**	**$41,593,483**	**$53,503,077**	**$65,045,442**	**$66,155,997**

Source: Iowa Department of Human Services "Child Care Assistance Expenditures" matrix. This matrix includes TANF funds provided for community empowerment (not all of which may be used for child care) but does not include state funds provided for community empowerment (some of which may be used for child care). The detailed breakdown of the state fiscal year 2002 child care state expenditures includes these figures in its calculations and is a better representation than provided here, but it is not available for other fiscal years and the figures here are comparable across state years in order to show trends.

Table Three: Taxes and the Relationship Between Gross and Disposable Income: Various Scenarios

Gross Family Income: Father	Gross Family Income: Mother	Food Stamp Income Cost	Out-of-Pocket Child Care Cost	Social Security Tax	Federal Income Tax	State Income Tax	Health Care Coverage Cost	Net Available Income
$18,000	Home	$1,560	$0	$1,116	-$2,542	$79	$0 (Medicaid)	$20,907
$18,000	$12,000	$0	$4,000	$1,860	$204	$438	$240 (HAWK-I)	$23,258
$30,000	Home	$0	$0	$1,860	$1,004	$1,131	$240 (HAWK-I)	$25,795
$30,000	$15,000	$0	$4,000	$2,790	$2,469	$1,709	$2,400 (Private)	$31,632
$30,000	$15,000	$0	$8,500	$2,790	$2,309	$1,720	$4,800 (Private)	$24,881
$336 (FIP)	$10,000	$1,458	$0 (Sub CC)	$620	-$2,271	$0	$0 (Medicaid)	$13,445
	$15,000	$534	$1,620 (Sub CC)	$930	-$1,829	$0	$0 (HAWK-1)	$14,813
	$20,000	$0	$2,000	$1,240	-$674	$122	$120 (HAWK-I)	$17,192
	$20,000	$0	$4,500	$1,240	-$774	$67	$120 (HAWK-I)	$14,847
	$22,500	$0	$2,000	$1,395	$140	$394	$120 (HAWK-I)	$18,451
	$22,500	$0	$4,500	$1,395	$48	$343	$120 (HAWK-I)	$16,094
	$25,000	$0	$2,000	$1,550	$935	$611	$120 (HAWK-I)	$19,784
	$25,000	$0	$4,500	$1,550	$847	$574	$120 (HAWK-I)	$17,409
	$30,000	$0	$2,000	$1,860	$1,956	$1,108	$1,200 (Private)	$21,876
	$30,000	$0	$4,500	$1,860	$1,876	$1,114	$1,200 (Private)	$19,450

Notes:

1. While plans vary slightly from county to county, HAWK-I Health insurance plans generally cover doctor and dental visits, hospital stays, well-child visits, prescriptions, and eye exams.
2. "SubCC" is an abbreviation for subsidized child care. In the cases above, a single mother with an annual income of $10,000 is eligible for co-pay-free, subsidized child care, while a single mother with an annual income of $15,000 is eligible for subsidy but must make co-payments totaling $1,620/year.
3. A family of four with an annual income of $45,000 and a family of two with an annual income of $30,000 are not eligible for Medicaid or HAWK-I. If the families don't receive coverage through the parents' employers, they will need to purchase private health insurance or go without coverage.
4. A family of two with an annual income of $10,000 is eligible for FIP benefits totaling $336/month.

** Special thanks to Musser Accounting Firm for tax analyses.

Table Four: Poverty and Low-Income Status of Families and Children by Child Age: Iowa and the United States (1997-1999 CPS Estimates)

	POVERTY		LOW INCOME	(200% POVERTY)
	Number (000s)	Percent	Number (000s)	Percent
Children Under 6				
Iowa	38	15	103	41
U.S.	4,804	20	10,128	43
6 to 17				
Iowa	54	11	162	33
U.S.	8,426	18	18,476	39
Families/Children Under 6				
Iowa	26	14	70	38
U.S.	3,108	18	6,845	41
6-17 Only				
Iowa	15	7	53	26
U.S.	2,439	12	6,046	30

Source: Special run from Population Reference Bureau for Iowa and U.S. Data from Bureau of Labor Statistics.

Table Five: Iowa Workforce Participation of Mothers with Children 0-5, by Type of Family

Women in Labor Force	1970	1980	1990
With Children Under 6 in Two-Parent Households	174,109	163,868	137,849
In Labor Force	49,331	78,971	98,672
Percentage	28.3%	48.2%	71.6%
With Children Under 6 in One Parent Households	10,445	19,710	25,843
In Labor Force	5,470	11,219	15,665
Percentage	52.4%	56.9%	60.6%

Source: U.S. Data from Bureau of Labor Statistics—Census Reports.

Table Six: Real (Inflation-Adjusted) Iowa Spending on AFDC/FIP Benefits and Child Care Subsidies, State Fiscal Years 1980-2001

	1980	1985	1990	1995	1996	1997	1998	1999	2000	2001
AFDC/FIP Benefit Level (in dollars)	$340	$360	$426	$426	$426	$426	$426	$426	$426	$426
Benefit Level Adjusted For Inflation (in dollars)	$771	$595	$588	$495	$483	$467	$460	$452	$440	$426
Total Cash Assistance Payments (in millions)	$131.4	$159.0	$150.6	$155.6	$134.8	$117.6	$102.4	$87.8	$79.4	$76.6
Total Child Care Subsidy Payments (in millions)			$2 (est.)	$20.1	$19.5	$20.5	$28.1	$36.4	$47.8	$49.9
Sum of Cash Assistance and CC Subsidy (in millions)	$131.4	$159.0	$152.6	$175.7	$154.3	$138.1	$130.5	$124.2	$127.2	$126.5
Sum of CA and CC Subsidy Adjusted for Inflation (in millions)	$298.1	$262.7	$210.6	$204.2	$174.9	$151.5	$140.8	$131.9	$131.5	$126.5
Total State Budget (in millions)	**(in 1981)** $1,730	$2,100	$2,860	$3,650	$3,860	$4,140	$4,360	$4,530	$4,760	$4,880
Sum of CA and CC Subsidy as a Percentage of Total State Budget	**7.60%**	**7.57%**	**5.34%**	**4.80%**	**4.00%**	**3.33%**	**3.00%**	**2.74%**	**2.67%**	**2.60%**

Sources: Iowa Department of Human Services and State Legislative Fiscal Bureau.

Table Seven: Current and Proposed State Funding for Early Childhood Services
State and Federal Funding, State Fiscal Year 2001
Developmental Supports for families with Very Young Children (0-5)

Program	FY 2001 Actual Appropriation	FY 2002 Final Action
Community Empowerment[1]	*$15,600,000*	*$15,817,250*
Confident/Competent Parenting		
Family Support/Parent Education		
Family Resource Centers[2]	*$90,000*	*$0*
AEA Early Childhood Network[3]	*$275,000*	*$252,725*
At-Risk Birth-3 Programs	*$839,400*	*$745,750*
HOPES, Healthy Families[4]	*$762,000*	*$962,250*
ESEA Title I—Even Start[5]	$1,314,045	$1,339,518
Special Ed—Grants for Infants & Families[5]	$3,446,438	$3,446,438
Special Ed—Other Federal Funding	$7,038,394	$8,043,030
Developmental Guidance		
Preschool Programs		
Shared Visions[3]	*$7,600,000*	*$7,064,126*
Head Start (Federal FY00)[6]	$40,714,000	$40,714,000
Special Education—Preschool Grants[5]	$4,077,008	$4,077,008
Title One Grants	$2,772,090	$2,755,365
Safe, Supervised Care		
Subsidized Child Care		
State Funding[7]	*$5,050,752*	*$5,050,752*
Federal Funding (TANF + CCDF)[8]	$49,359,438	$55,486,104
Total (St. + Fed) Spending	$129,128,081	$134,955,921
Total Spending per Child[a]	$540.14	$564.51
State Spending	$30,217,152	$29,892,853
State Spending per 0-5 Child[a]	$126.39	$125.04
State/Local and Federal Spending—Education of School-Aged Children (6-17)		
Foundation Aid[9b]	*$2,652,600,000*	*$2,750,000,000*
Educational Excellence[9]	*$80,891,336*	*$78,891,336*
Alternative School Funding[10]	*$10,000,000*	*$9,125,677*
Early Intervention Block Grant[9]	*$20,000,000*	*$30,000,000*
Teacher Compensation Funding[1]	*$0*	*$40,000,000*
Innovative Ed Programs Strategies Grant[5]	$3,838,433	$0
Class size Reduction [5]	$12,781,129	$0
Total (St./local + Fed) Spending	$2,780,110,898	$2,908,017,013
Spending per 6 to 17-Year Old[d]	$5,621.21	$5,879.83
State/Local Spending	$2,763,491,336	$2,908,017,013
State Spending per 6-17 Child[d]	$5,587.60	$5,879.83

Table Seven Continued.

State Higher Education Spending—Education of Young Adults (18-23)		
College Student Aid Com.[11]	*$58,817,659*	*$55,661,241*
Community College General Allocation[2]	*$147,577,403*	*$142,722,759*
University of Iowa Gen. Allocation[2]	*$255,836,163*	*$241,123,493*
ISU General Allocation[12]	*$202,542,309*	*$190,789,770*
UNI General Allocation[12]	*$90,643,431*	*$85,454,825*
Federal Pell Grants[5]	$101,400,000	$105,600,000
Federal Supp Ed Opportunity Grants [5]	$8,825,349	$8,825,349
Federal Work-Study[5]	$13,440,777	$13,440,777
JTPA Title II-C (Youth Training) (PY99)[13]	$477,724	$477,724
Workforce Investment Act (PY00)[14]	$3,259,920	$3,259,920
Total (St. + Fed) Spending	$882,820,735	$847,355,858
Spending per 18- to 23-Year Old[e]	$3,657.67	$3,510.74
State Spending	$755,416,965	$715,752,088
State Spending per 18-23 Child	$3,129.82	$2,965.48

Italics indicate state spending.

[a] This figure is derived by dividing the dollar amount by the number of children 0-5 in Iowa in 2000: 239,064.

[b] This figure includes state appropriated funds for each fiscal year and local school districts' match to those funds. State appropriations: FY01—$1,747,500,000; FY02—$1,806,500,000.

[c] These programs are proposed along with selected categorical programs, for consolidation into a new State grant program in the reauthorization of the Elementary and Secondary Education Act. It is expected that the proposed new program will allow flexible funding at the State and local levels, including funding for activities similar to those currently supported.

[d] This figure is derived by dividing the dollar amount by the number of children 6-17 in Iowa in 2000: 494,575.

[e] This figure is derived by dividing the dollar amount by the number of children 18-23 in Iowa in 2000: 241,361.

[1] Fiscal Update: Legislative Fiscal Bureau. May 17, 2001. End of Session-Special Edition. Attachment 5, p. 10 and attachment 8, p. 2. Available at http://staffweb.legis.state.ia.us/lfb/.

[2] Fiscal Update: Legislative Fiscal Bureau. May 17, 2001. End of Session-Special Edition. Attachment 5, p. 10. Available at http://staffweb.legis.state.ia.us/lfb/.

[3] Susan Anderson, Iowa Department of Education.

[4] Joane Hinrichs, Iowa Department of Public Health.

[5] Funds for State Formula-Allocated and Selected Student Aid Programs for Iowa. Department of Education. Available at http://www.ed.gov/offices/ous/olbyst.pdf.

[6] Head Start Fact Sheet (2001). Available at http://www2.acf.dhhs.gov/programs/hsb/about/fact2001.htm.

[7] Fiscal Update: Legislative Fiscal Bureau. May 17, 2001. End of Session-Special Edition. Attachment 5, p. 14. Available at http://staffweb.legis.state.ia.us/lfb/.

[8] Iowa Council on Human Services Budget Recommendation for Fiscal Years 2001, 2002, and 2003. Available at http://www.dhs.state.ia.us/Homepages/dhs/Council'sBudget2001/15-Chil%20care.xls and http://www.dhs.state.ia.us/Homepages/dhs/Council's%Budget%202002-2003/CCA%20-Director%20(2).xls.

[9] Fiscal Update: Legislative Fiscal Bureau. May 17, 2001. End of Session-Special Edition. Attachment 5, p. 21. Available at http://staffweb.legis.state.ia.us/lfb/.

[10] FY 2002 At-risk Supplementary Weighted Formula Draft. Iowa Department of Management, January 26, 2001.

[11] Fiscal Update: Legislative Fiscal Bureau. May 17, 2001. End of Session Special Edition. Attachment 5, p. 9. Available at http://staffweb.legis.state.ia.us/lfb/.

[12] Fiscal Update: Legislative Fiscal Bureau. May 17, 2001. End of Session-Special Edition. Attachment 5, p. 11. Available at http://staffweb.legis.state.ia.us/lfb/.

[13] United States Department of Labor. Employment and Training Administration. Available at http://www.doleta.gov/budget/99iic.txt.

[14] United States Department of Labor. Employment and Training Administration. Available at http://www.doleta.gov/budget/00you.txt.

NOTE: The figures in Chart Seven also include estimates of both Title I and Special Education grants to states, which increased the total federal per capita spending in both 0-5 and 6-17 populations.

Table Eight: State Fiscal Year 2002 Appropriation for Child Care Services and Supports and #s Served, by Funding Type and Location

	FY02	#Served Average Monthly
Child Care Subsidies and Related Programs		
CCA—Working Parents/Transitional/At Risk		
State from Child Care Approp.	$4,414,111	
State Child Care Credit fund	$2,600,000	
Federal CCDF funds	$14,847,580	
Federal CCDF funds transitional	$5,000	
Federal TANF funds	$28,438,328	
Average monthly number served FY 01		12,700
CCA—Protective Child Care		
State from CFS Approp.	$3,696,285	
Federal CCDF funds	$1,603,715	
Average monthly number served FY01		1,350
PROMISE JOBS Day Care		
CCDF funds	$3,600,000	
Average monthly number served FY01		1,400
Empowerment Funds		
State Allocation Est. CC	$2,342,587	
TANF Est. CC	$2,199,271	
Estimated Average monthly number served FY01		800
Foster Care Decategorization Funds		
CCDF funds	$1,600,000	
Estimated average monthly number served		400
Wrap-around services under quality activities		
CCDF funds	$3,081,824	
Estimated average monthy number served FY02		1,300

Table Eight: continued

Other Child Care Related Funding		
Quality Activities not including wrap-around		
CCDF funds	$832,095	
Empowerment Est. State funds	$1,171,294	
Empowerment Est. TANF funds	$2,953,307	
Child Care Resource and Referral		
State funds	$636,641	
CCDF funds	$1,800,000	
TANF Earmark	$200,000	
GRAND TOTAL	**$76,022,038**	**17,950**

Enriched Pre-School Activities	
Federal Head Start	$46,697,563
Shared Visions	$7,064,132
Estimated State Empowerment Funds	$780,862
Estimated Title I	$895,000
Total Enriched Pre-School Funding	**$55,437,557**

Sources: Iowa Department of Human Services and Iowa Department of Education. Iowa Empowerment funding was apportioned to reflect the best estimates of the amount of funding that was devoted to child care activities related to subsidies and quality, respectively, as opposed to funding for parenting education or enriched pre-school activities.

Enriched pre-school activities are shown as distinct from child care, as most of of the programs do not provide full-day or work-related child care.

Average monthly numbers of children served may include some double-counting of individual children who use more than one type of program in a given month.

Sources: Iowa Department of Human Services and State Legislative Fiscal Bureau.

Table Nine: Number of Children Served by Child Care Subsidy, by Type of Child Care Setting: State Fiscal Years 1996 through 2001

	FY1996		FY1997	FY1998	FY1999	FY2000	FY2001	
	#s	%	#s	#s	#s	#s	#s	%
Regular Child Care Assistance								
Registered Group Child Care Home	936	10.6%	1,054	1,514	2,229	3,026	3,017	13.2%
Licensed Child Care Centers	3,499	39.5%	3,617	4,426	5,907	8,609	7,751	33.8%
Registered Family Child Care Home	780	8.8%	908	1,250	1,670	2,530	2,032	8.9%
Non-Registered Family Child Care Home	3,556	40.2%	4,188	5,820	7,250	10,607	9,923	43.3%
In-Home Child Care	80	0.9%	98	143	167	219	205	0.9%
Total Regular Child Care Assistance	**8,851**	**100.0%**	**9,865**	**13,153**	**17,223**	**24,991**	**22,928**	**100.0%**
Protective Child Care Assistance								
Registered Group Child Care Home	294	10.8%	304	408	437	452	568	18.2%
Licensed Child Care Centers	1,701	62.4%	1,604	1,607	1,676	1,510	1,589	50.9%
Registered Family Child Care Home	252	9.2%	266	247	337	319	319	10.2%
Non-Registered Family Child Care Home	469	17.2%	522	716	528	554	635	20.4%
In-Home Child Care	11	0.4%	11	19	19	10	9	0.3%
Total Protective Child Care Assistance	**2,727**	**100.0%**	**2,707**	**2,997**	**2,997**	**2,845**	**3,120**	**100.0%**

Source: Department of Human Services, response to Request for Information Request # 640 from the Iowa Legislative Fiscal Bureau, October 23, 2001. There was no distinction made between registered and non-registered family child care home care for fiscal year 1996. In order to construct this table, the relative proportions of each type in fiscal year 1997 were used as a basis for developing breakdowns for 1996. For regular child care, 18% of all family child care home care was estimated to be for registered care. For subsidized child care, 35% of all family child care home care was estimated to be for registered care.

It is important to note that this represents the number of children who were subsidized and not the number of dollars that were paid in subsidies. In FY2001, approximately one-third of all spending went to non-registered providers.

Table Ten: State Reimbursement Schedule for Different Types of Providers

Table I
Half-Day Rate Ceilings for Basic Care

Age Group	Day Care Center	Registered Family Home	Registered Group Home	Non-registered Family Home
Infant and Toddler	$12.45	$10.00	$9.00	$8.19
Pre-school	$10.50	$9.00	$8.55	$7.19
School-Age	$9.00	$9.00	$8.33	$7.36

Table II
Half-Day Rate Ceiling for Special Needs Care

Age Group	Day Care Center	Registered Family Home	Registered Group Home	Non-registered Family Home
Infant and Toddler	$48.00	$15.75	$12.38	$10.24
Pre-school	$28.13	$14.63	$12.38	$8.99
School-Age	$28.04	$13.50	$11.25	$9.20

Sources: Iowa Department of Human Services

Table Eleven: State Co-Payment Schedule for Families in Subsidized Child Care

Income Levels	1	2	3	4	5	6	7	8	9	10	Half-Day Fee
A	661	891	1,120	1,350	1,579	1,809	2,039	2,268	2,498	2,727	.00
B	696	938	1,179	1,421	1,663	1,904	2,146	2,388	2,629	2,871	.50
C	735	990	1,245	1,500	1,756	2,011	2,266	2,521	2,776	3,032	1.00
D	776	1,045	1,315	1,584	1,854	2,123	2,393	2,662	2,932	3,201	1.50
E	819	1,104	1,389	1,673	1,958	2,242	2,527	2,811	3,096	3,381	2.00
F	865	1,166	1,466	1,767	2,067	2,368	2,668	2,969	3,269	3,570	2.50
G	914	1,231	1,548	1,866	2,183	2,500	2,818	3,135	3,453	3,770	3.00
H	965	1,300	1,635	1,970	2,305	3,641	2,976	3,311	3,646	3,981	3.50
I	1,019	1,373	1,727	2,081	2,434	2,788	3,142	3,496	3,850	4,204	4.00
J	1,076	1,450	1,823	2,197	2,571	2,945	3,318	3,692	4,066	4,439	4.50
K	1,136	1,531	1,926	2,320	2,715	3,109	3,504	3,899	4,293	4,688	5.00
L	1,200	1,617	2,033	2,450	2,867	3,284	3,700	4,117	4,534	4,950	5.50
M	1,267	1,707	2,147	2,587	3,027	3,467	3,908	4,348	4,788	5,228	6.00

To use the sliding fee schedule:

1. Move across the monthly income table to the column headed by the number of people in the family that was used in determining service eligibility.
2. Move down that column to the first row with an amount greater than the monthly family income. Use the row above that row to determine the fee. (Example: Income at or above level B, but less that level C, is level B fee, $.50 per half day.)
3. When a family has more than 10 members, find the income levels by multiplying the figures in the 4-member column by 0.03. Round the answers to the nearest dollar and multiply by the number in the family in excess of 10. Add the result to the amount in the 10-member column.

Include documentation in the case file to support the fee.

Source: Iowa Department of Human Services