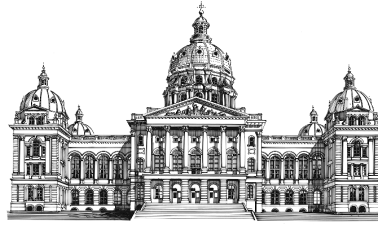

Iowa Legislative Fiscal Bureau

Dennis Prouty
(515) 281-5279
FAX 281-8451



State Capitol
Des Moines, IA 50319
October 30, 1997

State Child Care Assistance

ISSUE

Spending for State-subsidized child care for the working poor has increased significantly in recent years. However, questions persist concerning access to care, service priorities, appropriate rate reimbursement, and incentives for quality improvements.

AFFECTED AGENCIES

Department of Human Services

CODE AUTHORITY

Chapter 237A, Code of Iowa

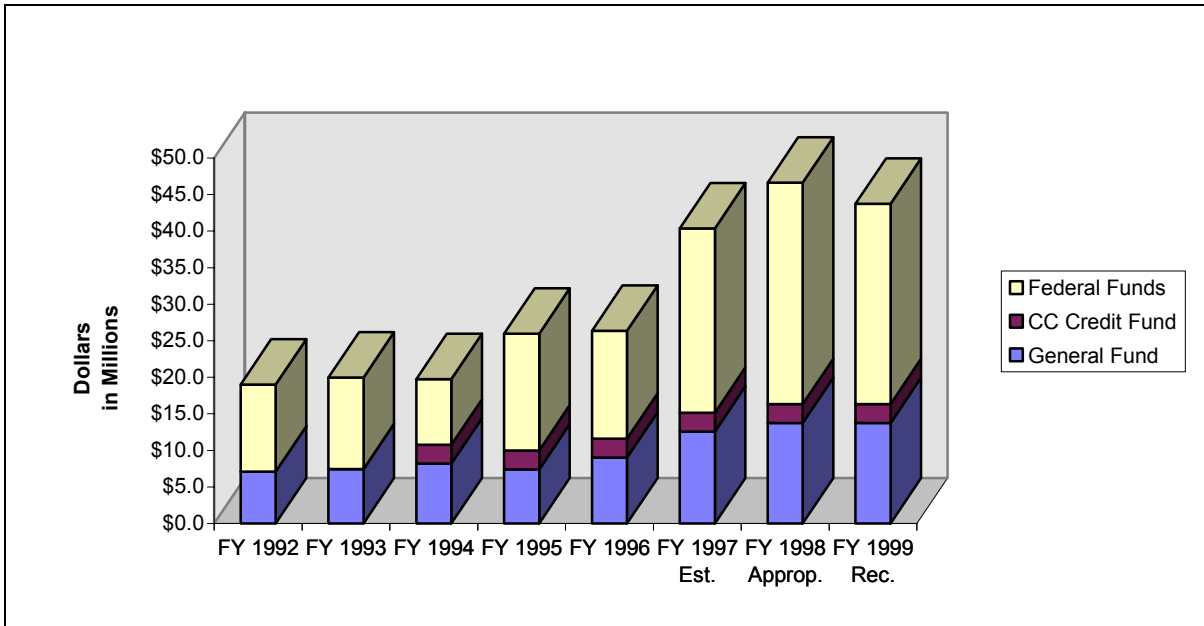
BACKGROUND

Funding History: Since FY 1992, State funding for all child care services has increased 129.6%. During the same time, federal funding has increased 154.6%. **Figure 1** details historical General Fund appropriations, Child Care (CC) Credit Fund transfers (State funds from the Department of Revenue and Finance from anticipated savings due to FY 1993 changes in the Dependent Care Tax Credit), and federal fund appropriations from FY 1992 through the Governor's Recommendation made last year for FY 1999.

I
S
S
U
E

R
E
V
I
E
W

Figure 1
Child Care Historical Funding



The Governor’s recommendation for FY 1999 anticipates a decrease of \$2.9 million in federal funding compared to FY 1998. Any policy change creating a demand for services in FY 1998 may require an increase in State resources to offset the decline in federal appropriations. Assuming no significant change in federal policy beyond FY 1999, the DHS anticipates a small annual increase in federal funding to cover inflation.

The priority list for services during a shortfall is dictated in Section 9.3, HF 715 (FY 1998 Human Services Appropriations Act), and is attached as **Appendix 1**. The existing budget for FY 1998 and FY 1999, based on an estimated growth of 210 cases per month, anticipates the return of a waiting list by December 1999, assuming no increase in General Fund appropriations.

Program Definitions and Project Caseloads: The following programs are administered by the DHS:

- State Child Care Assistance:** financial assistance for families below 125% of the FPL (federal poverty level - for a family of three, 125% of the FPL is \$16,663 gross annual income), with a client co-payment on a sliding fee scale for families above 100% of the FPL. Assistance is currently provided for an estimated 6,100 children. Assistance is available for families with special needs children earning up to 155% of the FPL (\$20,662 gross annual income for a family of three), with a co-payment based on a sliding fee scale.

Another eligibility criteria includes an average of 20 work hours per parent per week. However, the DHS has been approving applications based on the priority group requirements requiring 30 hours of work weekly. Proposed administrative rules effective December 1, 1997, increase the minimum work requirement to 28 hours per week. Assistance also includes coverage of clients no longer eligible for Transitional Child Care, up to 155% of the FPL, through administrative

rules implemented in July 1997, although the coverage was routinely practiced for several years prior to the rules change.

- **Protective Child Care:** provides child care services to assist in the prevention or remediation of neglect, abuse, or exploitation of a child, relieving the parent(s) of the pressures of 24-hour care, enabling them to work on other family problems. The FY 1998 budget assumes a caseload of 1,200 children in Protective Child Care. The service is provided to families in need without regard to income and without a co-payment.
- **Transitional Child Care:** provides 24 months of child care assistance to families no longer eligible for the Family Investment Program (FIP) due to an increase in income or child support, hours worked, or loss of income disregard, or who voluntarily leave FIP, with a client co-payment on a sliding fee scale. The current caseload of Transitional Child Care is approximately 1,280 children.
- **Promise Jobs Child Care:** provides child care for Promise Jobs recipients while the parent is involved in training, education, counseling, or job interviewing. The current caseload is approximately 1,600 children. There is currently no waiting list for Promise Jobs clients. The payment to providers is based on the actual hours of service provided rather than on the half-day rate paid to providers for other child care services.

Recent Legislation: During the 1997 Legislative Session, the General Assembly enacted several bills or bill sections involving changes in registration incentives; increases in eligibility and provider reimbursement rates; and clean-up details associated with federal welfare reform.

Studies in the following policy areas were also specified in several pieces of legislation:

- Pilot Project on Registration/Quality incentives.
- Client co-payment evaluation to study if clients participate as required and evaluate financial effects on providers.
- Registered versus non-registered provider reimbursement rate, to study the effect on access and evaluate provider shift to registration subsequent to a rate incentive.

Appendix 2 summarizes State and federal changes legislated during FY 1997.

CURRENT SITUATION

Need Identification: The DHS maintains that it is difficult to estimate need and future demand for child care assistance. This is in part due to nonapplicability of historical usage data to future demand. Several factors prevent historical comparisons from being accurate:

- Periodic use of waiting lists throughout the last several years invalidates extrapolation of historical data to the future. During a waiting list period, not all demand is met, and some eligible clients may not attempt to apply, unwilling to remain on the waiting list until assistance is available.
- Eligibility changes, such as income or work requirements, and educational or vocational training limits, also complicate comparisons of demand over time.
- Changes in the economy have an immeasurable effect on demand for services.

- Client education, or the extent to which the eligible population is aware of the availability of assistance, is not constant over time. Some changes in funding and eligibility are “marketed” with more or less enthusiasm than other changes.
- Funding changes in related programs may also impact demand. An example is at-risk programming for four-year-olds, which provides federal funding for Head Start through the Department of Education. An income means test, similar to State Child Care Assistance eligibility, qualifies an individual for Head Start preschool programming, thus reducing the need for the child’s parent to seek child care financial assistance. Another such program would be all-day kindergarten. Commitment levels to competitive programs affect demand in both directions, thus decreases in funding for similar programs would result in increased demand for assistance.

Perhaps due to the difficulty in measuring unmet needs, various policy groups and the DHS have presented a variety of different estimates of need classification including the following:

- The Child Care Work Group, a subcommittee of the Welfare Reform Advisory Group, recommended expansion of assistance to 155% of the FPL, using a client co-payment. (The subcommittee and the Advisory Group both recommended establishing one child care program with one set of eligibility requirements, but assumed the 155% income eligibility in making that recommendation.) The Welfare Reform Advisory Group and subcommittees, with membership representing public and private stakeholders, by invitation to interested individuals by the Director of the DHS, were formed to consider implementation and issues of federal welfare reform, and made legislative recommendations during the 1997 Legislative Session.
- In 1993, when eligibility was 155% of the FPL, approximately 8,000 children were on the waiting list. A DHS analysis of the cost of increasing eligibility to 165% of the FPL with a 75% copayment, revealed the following income distribution of the waiting list families:
 - 5,680 children at or below 100% of the FPL
 - 1,360 children between 101% and 125% of the FPL
 - 880 children between 126% and 150% of the FPL
 - 80 children between 151% and 165% of the FPL

Note: Waiting list information may only be used with extreme reservation since it does not describe the entire universe of need, does not control duplication, and is not updated regularly. It is also subject to some self-selection, since individuals with higher income may be less likely to endure the difficulties of the waiting list.

- Representatives from urban facility providers in Des Moines testified before the Human Services Appropriations Subcommittee (February 11, 1997) that extending assistance to 155% of the FPL is necessary for facilities to remain open, since their potential clients fall within this income distribution, and they are currently operating at 50% occupancy.
- U. S. Census data evaluation: A review of U. S. Census data by the Legislative Fiscal Bureau, including age distribution of children, income distribution, and single working parents or both parents working, reveals a total universe of children potentially eligible for State Child Care Assistance. Including children through age 14, with parents working, below 125% of the FPL, there are an estimated 90,000 children potentially eligible for State Child Care Assistance. The evaluation does not distinguish special needs cases eligible at the higher 155% FPL. A spreadsheet indicating the distribution of children by age and income is included as **Appendix 3**. The implications of the evaluation include:
 - ✓ With 6.8% of the total eligible universe receiving assistance, the remaining 93.2% have found other solutions to child care needs, such as parents working split shifts or one

parent working part-time, depending upon other family members, working during school hours, older siblings caring for younger children, trading child care with other families, or depending on Head Start or other at-risk programming. There may be some children at home alone while parents work.

- ✓ The requirements of working 30 hours per week, both parents working simultaneous hours, and access to providers may be sufficiently challenging that the process screens out many low-income families otherwise eligible.
- ✓ Many eligible families may not realize that State assistance is available, may resist dependency on the State for child care, or may choose a lower standard of living in order to stay home with children and avoid care in a center or other family home.

Current Caseload: The following summary of service costs and caseloads compares FY 1997 assistance to previous years, and includes Protective Child Care, State Day Care Assistance, and federal At-Risk Child Care clients. Further expansion of child care to higher income levels with a client co-payment will have the effect of lowering the average cost per case. Total historical change in caseload from FY 1993 through FY 1997 is indicated in **Figure 3**:

Figure 3
Historical State Day Care Assistance Caseload
 (FY 1993 to Present)

Month/Year	Eligibility Criteria (% FPL)	Caseload	Monthly Cost/Child	Annualized Expenditures (in Millions)	New Cases	Cases Closed	Caseload Increase
FY 1993 Average	155% to 100%	7,811	\$239	\$22.4	411	754	-343
FY 1994 Average	100%	5,001	\$238	\$14.3	391	417	-26
FY 1995 Average	100%	6,973	\$243	\$20.3	891	554	337
FY 1996 Average	100%	6,651	\$250	\$19.9	296	580	-284
FY 1997 Average	100%	6,584	\$259	\$20.5	593	489	104
July 1997	125% & provider rate increase	7,376	\$283	\$25.0	833	508	325
August 1997	125%	7,114	309	\$26.4	807	426	381
September 1997	125%	7,609	298	\$27.2	905	585	320

Note: A more detailed historical report, including waiting lists and eligibility changes, is provided in **Appendix 4**.

ALTERNATIVES & BUDGET IMPACT

Eligibility changes - other states, such as Colorado, provide eligibility up to 185% of the federal poverty level (\$24,024 gross annual income for a family of three) with a sliding fee schedule. Colorado's child care program is administered at the county level with each county determining the level of income eligibility and receiving block grant funds from the state. Expansion to 185% of the FPL with a client copay in Iowa would cost an estimated \$5.6 million annually in total funds, assuming similar participation rates of families in the higher income levels of eligibility. Eligibility income criteria may also be lowered in order to preclude use of a future waiting list, or as a funding source for various quality improvement initiatives.

Changes in the sliding fee scale, which is currently defined in Iowa Administrative Code, could be implemented, such as increasing the sliding fee scale per client, or expanding copay below the current 100% FPL floor to lower income clients.

Additional provider rate reimbursement, if found to correlate with quality of care provided, may be a tool of quality assurance. Upon completion of the evaluation of the provider rate differential as an incentive to registration, the option of increasing rates may be discussed. If appropriations are constant or decrease, however, the increased rates could be funded by decreasing eligibility income levels.

A one-time bonus could be offered to clients enrolling in before- and after-school programs (such as Metro Kids Care) rather than in centers, since the rates are typically lower than the minimum half-day rate paid to the center. There is an assumption that higher cost care, such as in centers and registered family homes, is of higher quality. If this is correct, there may be more individuals covered at a lower quality (and less expensive) level of care.

Time-limit benefits - same concept as applied to welfare reform - would encourage clients to strive for self-sufficiency. May leave some children without access to child care if self-sufficiency is not attained within the prescribed limit.

Promise Jobs provider reimbursement rate could be converted to a half-day rate - currently Promise Jobs child care is paid on an actual hours served basis rather than the half-day rate. Anticipated savings from changing to the hourly rate in FY 1995 were estimated to be approximately \$3.0 million annually.

Alternative program expansion or evaluation may be implemented simultaneously while increasing, maintaining, or decreasing current child care assistance eligibility. Examples of alternative programs serving portions of the populations eligible for child care assistance may include:

- ✎ All-day kindergarten
- ✎ Head Start expansion
- ✎ School-based care
- ✎ Expand the length of the school day
- ✎ Twelve-month school year

Mandatory Registration - required registration of all child care providers serving State-funded clients could be enacted, again based on the assumption that registration and required continuing education result in an increased quality of care. The fiscal impact of mandatory registration involves paying the higher rate to providers currently not registered. The cost of increasing the current non-registered payments to the registered rate was estimated by the DHS to be \$2.0 million during FY 1998 budget discussions. An impact on access is possible in which some providers may choose other employment rather than fulfill registration requirements.

Payment to Providers by Voucher - the State could get out of the provider payment process by implementing a voucher system given directly to clients. Possible impacts of a voucher system include:

- Minimal potential FTE and cost savings since eligibility determination and voucher redemption functions would be required.
- A change of the data collection point.

- No link to provider registration or rate setting, which shifts the responsibility for quality care decisions to parents (although the State could continue to independently register and inspect service locations for continued input into quality issues.)

Continued Evaluation of Status Quo Programs - Another legislative option during FY 1998 might include maintaining current eligibility criteria and provider reimbursement rates, while the impacts of the various changes effective in July 1997 can be evaluated. The Legislative Fiscal Bureau will continue to monitor changes in caseloads and expenditures of General Fund and federal appropriations throughout FY 1998.

STAFF CONTACT: Margaret Buckton (Ext. 17942)

Appendix 1Section 9.3, HF 715 (FY 1998 Human Services Appropriations Act)
Waiting List Criteria for New State Day Care Assistance Clients

20 11 3. For the purposes of this subsection, the term "poverty
20 12 level" means the poverty level defined by the poverty income
20 13 guidelines published by the United States department of health
20 14 and human services. Effective October 1, 1997, the department
20 15 shall increase to 125 percent the maximum federal poverty
20 16 level used to determine eligibility for state child care
20 17 assistance. Based upon the availability of the funding
20 18 provided in subsection 2 the department shall establish
20 19 waiting lists for state child care assistance in descending
20 20 order of prioritization as follows:

20 21 a. Families with an income at or below 100 percent of the
20 22 federal poverty level whose members are employed at least 30
20 23 hours per week, and parents with a family income at or below
20 24 100 percent of the federal poverty level who are under the age
20 25 of 21 and are participating in an educational program leading
20 26 to a high school diploma or equivalent.

20 27 b. Parents with a family income at or below 100 percent of
20 28 the federal poverty level who are under the age of 21 and are
20 29 participating, at a satisfactory level, in an approved
20 30 training program or in an educational program.

20 31 c. Families with an income of more than 100 percent but
20 32 not more than 125 percent of the federal poverty level whose
20 33 members are employed at least 30 hours per week. Assistance
20 34 provided to families pursuant to this paragraph shall be
20 35 provided in accordance with a sliding fee scale developed by
21 1 the department.

21 2 d. Families with an income at or below 155 percent of the
21 3 federal poverty level with a special needs child as a member
21 4 of the family.

21 5 e. Families with an income at or below 100 percent of the
21 6 federal poverty level whose members are employed part-time at
21 7 least 20 hours per week.

21 8 The department may adopt emergency rules to implement the
21 9 provisions of this subsection.

Appendix 2
Recent State and Federal Child Care Legislation

Bill Number	Policy Action	Effective Date
HF 715 (Human Services Appropriations Act): Section 9.3	Expanded income eligibility for State Day Care Assistance from 110% to 125% of the federal poverty level (\$16,225 annual income for family of three.)	October 1, 1997
SF 542 (FY 1997 Supplemental Appropriations Act) Section 20	Moves the above action effective date to July 1, 1997.	July 1, 1997
HF 715, Section 3.7	Allows carry-forward of \$2.0 million to eliminate the Promise Jobs waiting list. The waiting list was cleared as of August 1997.	July 1, 1997
HF 715, Section 9.7	Specifies that funds shall be considered obligated at the time expenditures are projected or allocated to the department's regions and defines basis for future projections.	July 1, 1997
HF 715, Section 9.8	Maintains the allocation of \$1.2 million for transitional child care assistance which is no longer mandated by the federal government pursuant to federal welfare reform.	July 1, 1997
HF 715, Section 9.10	Eliminates the specific allocation to the Hispanic Educational Resource Center in Des Moines and directed the Department to find replacement funding if required.	July 1, 1997
HF 715, Section 9.11	Requires the DHS to evaluate client co-pay and report the evaluation results to the Governor and the General Assembly by December 15, 1997.	July 1, 1997
HF 715, Section 28.9	Increases provider reimbursement rates based on the December 1996 survey to provide incentives for registration, review the effects of incentives on service availability, change in the number of providers who are registered, and any effect on access in rural and urban areas, and report the findings of the review to the General Assembly by January 2, 1998.	July 1, 1997
SF 541 (Child Care Home Pilot Project)	Establishes a pilot project for in-home group child care, and requires two progress reports in 1998.	July 1, 1997
SF 516, (DHS Statutory Program Revisions Act) Section 239B.23	Extends transitional child care to former FIP recipients for up to 24 months, and requires the DHS to automatically determine eligibility for other child day care benefits if the individual is not eligible for transitional child care or eligibility for transitional child care benefits is exhausted.	April 18, 1997
Federal Welfare Reform	Eliminates requirement of transitional child care for former FIP recipients.	August 22, 1996
Federal Welfare Reform	Specifies work participation requirements with potential for increased demand for child care assistance.	August 22, 1996

**Appendix 3
Estimated Population Universe for State Child Care Assistance**

	Total Kids by Age		Children by Age and by Income Percent of Federal Poverty Level					
	Below 6 with either a single parent or both parents in labor force	Ages 7-14 with either a single parent or both parents in labor force	0-100%	101-125%	126-133%	134-185%	Above 185%	Total
Age Distributions								
Under 1 year	19,297		3,136	1,002	459	1,563	13,137	19,297
1 and 2 years	44,721		7,267	2,321	1,064	3,622	30,446	44,721
3 and 4 years	43,857		7,127	2,276	1,043	3,552	29,858	43,857
5 years	22,800		3,705	1,184	542	1,847	15,523	22,800
6 years	23,089		3,752	1,198	549	1,870	15,719	23,089
7 to 9 years		102,884	16,718	5,340	2,448	8,334	70,044	102,885
10 and 11 years		68,872	11,191	3,575	1,639	5,579	46,888	68,872
12 and 13 years		64,791	10,528	3,363	1,542	5,248	44,110	64,791
14 years		30,876	5,017	1,603	735	2,501	21,021	30,876
	<u>153,764</u>	<u>267,424</u>	<u>68,441</u>	<u>21,863</u>	<u>10,021</u>	<u>34,116</u>	<u>286,747</u>	<u>421,188</u>

Note: Shaded area indicates potential families eligible for State Day Care Assistance, estimated to be approximately 90,000 children through age 14. Of current clients, 24.2% (those above 100% FPL) are required to pay a client copay. Distribution of Total Kids by Age is based on U. S. Census data. Distribution of Children by Age by Income Percent of Federal Poverty Level is extrapolated based on total income distribution in Iowa obtained from U. S. Census data. Totals may not add due to rounding.

Appendix 4
Historical Monthly Day Care Case Report

Month/Year	Eligible Children	Eligibility Criteria	Caseload	Monthly Cost/Child	Paid % of Eligibles	Monthly Expenditures	Annualized Expenditures	New Cases	Cases Closed	Caseload Increase
FY 1993 Average	10,681	155% to 100%	7,811	\$239	73.1	\$1,869,512	\$22,434,149	411	754	-343
FY 1994 Average	6,886		5,001	\$238	72.6	\$1,192,004	\$14,304,052	391	417	-26
FY 1995 Average	9,891		6,973	\$243	70.5	\$1,693,858	\$20,326,295	891	554	337
Jul-95	11,692	Waiting List	7,976	258	68.2	2,057,808		538	706	-168
Aug-95	11,344	Waiting List	7,765	249	68.5	1,933,485		320	667	-347
Sep-95	10,579	Waiting List	7,658	264	72.4	2,021,712		185	953	-768
Oct-95	10,012	Waiting List	6,624	240	66.2	1,589,760		228	796	-568
Nov-95	9,435	Waiting List	6,583	261	69.8	1,718,163		160	736	-576
Dec-95	8,996	Waiting List	6,384	245	71.0	1,564,080		156	596	-440
Jan-96	8,437	Waiting List	6,150	234	72.9	1,439,100		135	695	-560
Feb-96	8,247	Waiting List	5,971	245	72.4	1,462,895		153	342	-189
Mar-96	7,949	Waiting List	5,697	239	71.7	1,361,583		151	450	-299
Apr-96	7,979		6,559	250	82.2	1,639,750		376	347	29
May-96	8,176		5,672	252	69.4	1,429,344		527	328	199
Jun-96	8,451		6,776	258	80.2	1,748,208		621	346	275
FY 1996 Average	9,275		6,651	\$250	71.7	\$1,660,041	\$19,920,494	296	580	-284
Jul-96	8,659		6,180	262	71.4	1,619,160		624	414	210
Aug-96	8,897	110% FPL	6,072	275	68.2	1,669,800		574	336	238
Sep-96	9,082		6,395	269	70.4	1,720,255		720	534	186
Oct-96	9,206		6,330	245	68.8	1,550,850		756	629	127
Nov-96	9,306		6,159	258	66.2	1,589,022		491	386	105
Dec-96	9,326		6,710	255	71.9	1,711,050		498	486	12
Jan-97	9,316		6,723	256	72.2	1,721,088		495	503	-8
Feb-97	9,266		6,705	252	72.4	1,689,660		475	524	-49
Mar-97	9,341		6,827	247	73.1	1,686,269		578	507	71
Apr-97	9,355		7,005	261	74.9	1,828,305		556	543	13
May-97	9,504		6,902	265	72.6	1,829,030		562	406	156
Jun-97	9,695		6,999	263	72.2	1,840,737		789	603	186
FY 1997 Average	9,155		6,584	\$259	71.9	\$1,705,234	\$20,462,813	593	489	104
Jul-97	10,018	125% FPL & rate increase	7,376	283	73.6	2,087,408	\$25,048,896	833	508	325