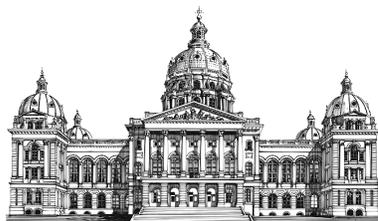

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Child Care Assistance Program

ISSUE

This *Issue Review* provides an overview of the Child Care Assistance Program, including eligibility guidelines and funding sources, and fiscal issues for the Program in FY 2008.

AFFECTED AGENCY

Department of Human Services (DHS)

CODE AUTHORITY

Chapter 237A, Code of Iowa
441 Iowa Administrative Code, Chapter 170

BACKGROUND

The Child Care Assistance Program subsidizes the cost of child care for eligible low-income families that meet income requirements and need child care to work or participate in approved education or training, including those participating in PROMISE JOBS. The Program also provides protective child care, and covers child care expenses for children in foster care.

To be eligible, families must have a gross monthly income below 145% of the federal poverty level (FPL) (approximately \$29,000 per year for a family of four) or 200% of the FPL if they have a child with a special need (approximately \$40,000 per year for a family of four). Parents are also required to be working 28 or more hours per week or be in school full-time. In some cases, families pay a copayment directly to the provider, who also receives reimbursement from the State.

The Program also provides funding for the regulation of child care centers and child development homes; the five child care resource and referral agencies; the Quality Rating System; and early childhood activities through the Community Empowerment Areas.

The Program is funded with a combination of State, federal, and Temporary Assistance to Needy Families (TANF) funds, with the majority of the funding coming from federal Child Care Development Funds (CCDF). In FY 2006, \$62.3 million (64.7%) of the total expended on the

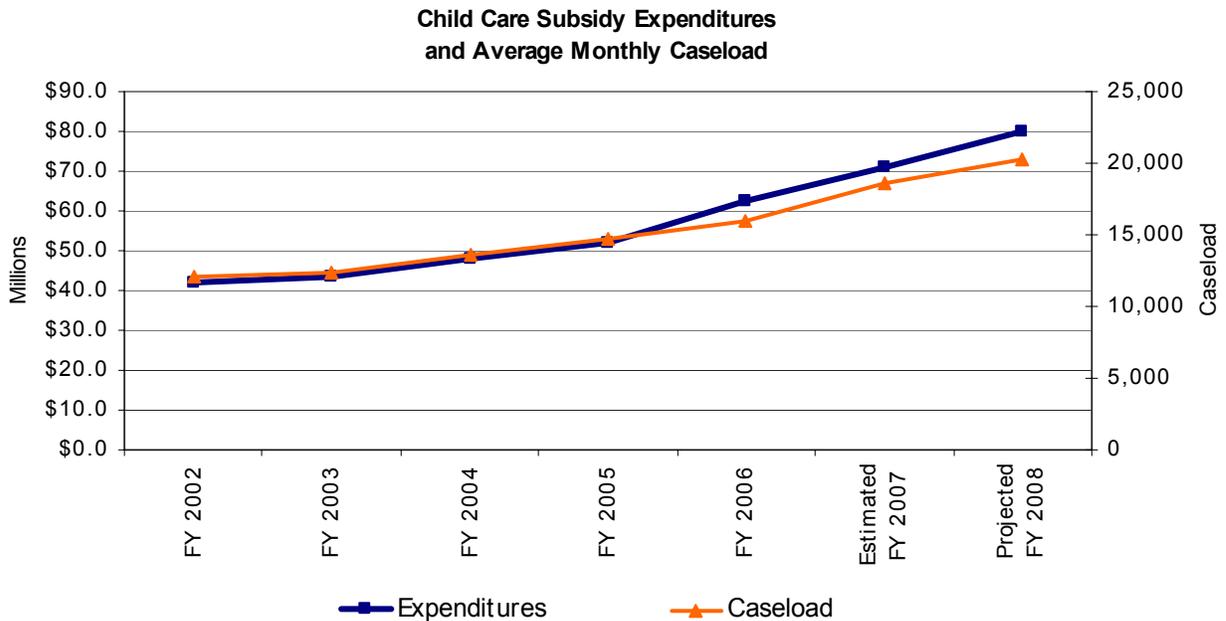
Program was used to cover costs for child care subsidies. This total does not include protective child care or child care for PROMISE JOBS or foster care recipients.

CASELOAD GROWTH

Iowa ranks in the top five states in the nation in the percentage of families with preschool children in which all parents in the household are employed, as well as in the percentage of families with school-age children in which all parents in the household are employed.

For Iowa families with preschool children, child care is the second highest living expense after a mortgage. An Iowa family with two children spends an annual average of over \$9,000 for child care. Almost 50.0% of Iowa families with young children earn less than \$35,000 per year. Approximately 70.0% of families who receive child care assistance are eligible because the parents are employed, and approximately 20.0% receive assistance under the Family Investment Program (FIP).

The Child Care Assistance Program serves a caseload that expands each month. The \$62.3 million cost for child care subsidy in FY 2006 was an increase of \$20.5 million (49.2%) compared to FY 2002. A significant factor impacting the caseload increase, outside demand, is the State's emphasis on early childhood activities, which has resulted in better public information regarding the availability of child care subsidy, especially in the last five years. The chart below provides State expenditures and average monthly caseloads for Child Care subsidy from FY 2002 through projected FY 2008.



PROVIDER RATES

The State increased the maximum reimbursement level to child care providers who care for children eligible for Child Care Assistance to the 75th percentile of the 2004 Market Rate Survey (MRS) on January 1, 2007. Prior reimbursement rates were based on the 2002 MRS levels. The provider rates paid by the State cannot exceed what a provider receives for private pay rates. The 75th percentile is used to increase equal access to child care for eligible families by assuring that at least 75.0% of all providers' private pay rates are at or below the State maximum. The DHS conducts a MRS every two years; however, the provider rate is established in the annual Health and Human Services Appropriations Act.

Child care provider rates are based on the provider type and age of the child, and are paid on half-day units comprised of up to five hours per unit. There are 6,000 registered child development homes and 1,500 licensed child care centers. A description of the different types of child care provider categories may be found on the DHS web site at: www.dhs.state.ia.us.

The table below provides a comparison of the basic current provider rates (based on the 2002 MRS) with the rates that were implemented on January 1, 2007, based on the 2004 MRS. As an incentive for providers to become registered, the General Assembly directed no change in the rates for non-registered providers.

**Child Care Half-Day Provider Rates
Basic Care**

Age Group	Licensed Center			Registered Home Category C		
	2002	2004	% Change	2002	2004	% Change
Infant & Toddler	\$ 14.50	\$ 15.50	6.9%	\$ 10.00	\$ 11.50	15.0%
Pre-School	12.00	12.50	4.2%	10.00	11.25	12.5%
School-Age	10.50	11.25	7.1%	10.00	10.00	0.0%

Age Group	Registered Home Category A, B			Non-Registered Home		
	2002	2004	% Change	2002	2004	% Change
Infant & Toddler	\$ 11.25	\$ 12.00	6.7%	\$ 8.19	\$ 8.19	0.0%
Pre-School	10.00	11.25	12.5%	7.19	7.19	0.0%
School-Age	10.00	10.00	0.0%	7.36	7.36	0.0%

CURRENT SITUATION

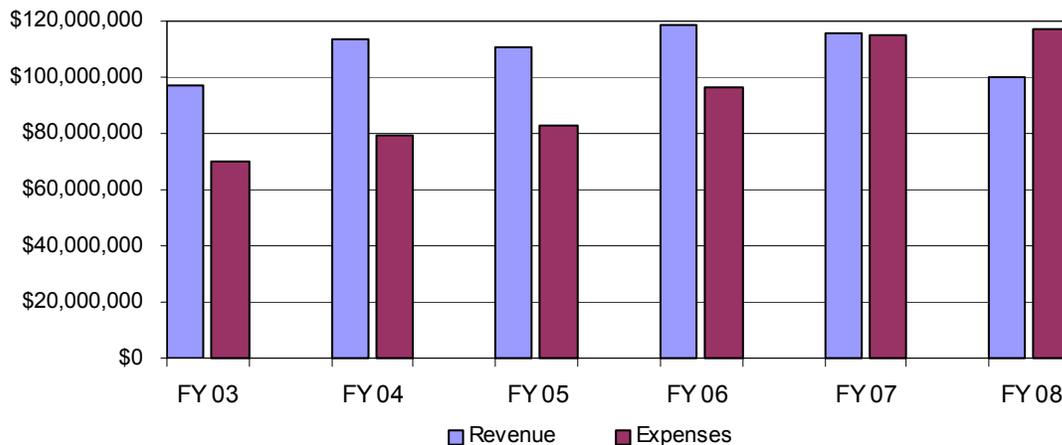
The Program is expected to need a significant increase in funding in FY 2008. This increase can be attributed to three factors, including the depletion of federal carryforward funds used to maintain caseload in previous fiscal years; new caseload growth; and the need to annualize the provider increase authorized in FY 2007.

Historically, the State balanced income eligibility levels and provider reimbursement rates against available funding, which became more challenging due to State budget circumstances in recent years.

Prior to FY 2005, annual Program revenues exceeded expenditures. This allowed increases in federal CCDF and TANF funds to be carried forward into subsequent fiscal years. The carryforward

funds were used to cover caseload increases in difficult budget years in lieu of providing an increase in funds; however, the carry forward funds are expected to be depleted by the end of FY 2007, which will leave a gap in caseload coverage if not replaced. The chart below shows the revenues and expenditures for the Program from FY 2003 to projected FY 2008. This includes revenues from all sources and expenditures for all programs within the Child Care Assistance Program, including, but not limited to, child care subsidy.

**Child Care Assistance Program
Revenues and Expenditures
FY 2003 - Projected FY 2008**



The caseload continued to increase even though the eligibility level did not change from FY 1999 to FY 2005. The General Assembly expanded eligibility for the Program from 140% of the FPL to 145% for basic care and from 175% of the FPL to 200% for special needs cases, beginning in FY 2006, in HF 825 (FY 2006 Health and Human Services Appropriations Act). The Act also included a provider rate increase, bringing provider rates up to the 2002 MRS, beginning on September 1, 2005. The Act included an increase of \$9.9 million in State funds for the Child Care Assistance Program to cover these changes in FY 2006.

For FY 2007, the General Assembly provided an increase of \$1.7 million in HF 2734 (FY 2007 Health and Human Services Appropriations Act) to bring provider rates up to the 2004 MRS, beginning on January 1, 2007. The increase included \$1.2 million in TANF funds and \$500,000 from the General Fund. Since the new rates will only be in effect for half of FY 2007, these costs will have to be annualized in FY 2008 with additional funds.

BUDGET IMPACT

The DHS has requested an increase of \$17.1 million for the Child Care Assistance appropriation for FY 2008, which includes \$10.5 million to cover the caseload funded in previous years with federal carryforward funds; \$3.7 million for new enrollment growth; and \$2.9 million to annualize the FY 2007 provider rate increase.

Without additional funds, the DHS indicates that 1,355 children whose families will receive child care subsidy in FY 2007 will lose assistance, and a waiting list will be imposed to limit future

enrollment. As of December 22, 2006, the Department has not indicated a need for a supplemental appropriation for Child Care Assistance for FY 2007.

As the 2007 General Assembly prepares to make budget decisions, the Fiscal Services Division of the Legislative Services Agency will continue to work with the DHS to monitor the actual monthly increases in caseload, which may result in adjustments in projections that will impact the level of funding needed in FY 2008. Adjustments may also be made in the amount needed to annualize the FY 2007 provider rate increase. Since the rate increase did not go into effect until January 1, 2007, the impact may change after re-assessment in March 2007 when more information is available regarding how many providers were eligible for and requested a rate increase.

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Child Care Assistance Program
<http://www.legis.state.ia.us/lsadocs/IssReview/2007/IRLRB001.PDF>
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