Strengthening Child Care Assistance in Iowa

The State's Return on Investment

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March 2009

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The Iowa Policy Project

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By Lily French and Peter S. Fisher

Introduction

Iowa helps reduce the cost of child care for low-income working families through the Child Care Assistance (CCA) program, funded largely from a federal block grant called the Child Care Development Fund. The primary goals of the Child Care Development Fund are to 1) help low-income working families become self-sufficient through access to affordable, quality child care that meets their needs; and 2) improve the quality of child care for all families.[1] Thus, CCA strives to enable parents to work and to promote positive development for children. When achieved, both of these goals bring returns to the state budget.

This report analyzes the potential state fiscal returns for Iowa from various investments in Iowa's child care subsidy program. These returns, in the form of higher tax revenues and reduced public assistance expenditures, occur because child care assistance increases the employment, earnings and disposable income of parents; because it lifts some children out of poverty; and because low-income children receive higher quality care.

Research shows that financial assistance with child care costs is associated with a range of positive employment outcomes for low-income workers, including steady employment, less time on welfare, and higher earnings, which produces greater tax revenues for the state. When a family's earnings rise above the poverty line, the state also benefits from additional tax revenue and reduced public expenditures over the course of the children's lives. The reach of Iowa's child care subsidy program could be expanded to achieve greater employment effects. Due to low income-eligibility limits and low enrollment rates, the full range of employment-related benefits for families and for the state have not yet been realized.

The greatest returns to investments in the subsidy program come not through gains in adult employment, but through improvements in children's daily lives which lead to long-term advancement and greater well-being. Research shows that enhancing children's development through the provision of quality care and early childhood education results in higher wages, more taxes and reduced public expenditures as these children grow into adulthood. Iowa's quality is not currently at a level adequate to produce the greatest fiscal returns, especially among children in subsidized care where the strongest impact can be made and economic returns can be achieved.

States have wide discretion in setting income eligibility limits, family co-payment levels, provider reimbursement rates, and other policies, all of which can affect the degree to which the overarching goals of the subsidy program are actually achieved. Herein lies Iowa's opportunity to reap greater fiscal returns to its investment in the Child Care Assistance program.

In this report, we detail the growing need for and rising costs of child care, review research on the employment effects of subsidies as well as benefits of quality child care, provide an overview of Iowa's current child care landscape, and estimate the state fiscal returns to expansions and improvements within the child care subsidy program. We conclude with a series of recommendations for reforming child care assistance policy in Iowa.

The Case for Child Care Assistance

Child Care is Essential for Today's Workforce

The labor force participation of parents with young children has increased substantially over the past few decades, with the rate of mothers who work outside the home rising from 30 percent in 1960 to 72 percent by 1999.[2] This trend has been compounded by the 1996 federal welfare law requiring all recipients, including parents with young children, to participate in work activities as a condition of receiving public benefits. As a result, at least one million preschool-age children moved into new child care settings between 1996 and 1998 as their parents went to work.[3] Further, the absence of national paid family leave means that many parents return to the labor force while their children are very young.

Today, the majority of parents have to work outside the home in order to get by and therefore must arrange care for their children. Most families that are low-income – defined as having earnings below 200 percent of poverty – include at least one year-round, full-time worker. In addition, more than two-thirds of poor families – defined as having earnings below 100 percent of poverty – with children work.[*]

With the increasing participation of women in the workforce and changes to work requirements under welfare reform, a growing number of parents use child care from the time their children are infants into their school-age years. Nationwide, almost 12 million children under age 5 are spending an average of 36 hours per week in some type of child care setting. An additional 10 million school-age children are in care during the week while their parents work.[4]

In Iowa, there are 159,392 children under the age of six needing child care because their parents are in the labor force.[5] Iowa ranked fourth in the nation in the percent of children under six with all parents employed: 70 percent, compared with 60 percent for the nation as a whole.[6] Iowa must proactively address the child care needs of working families. Safe and reliable child care is an essential requirement for parents to be able to return to work after the birth of a child. Access to regular child care that is affordable, reliable and flexible is also crucial to maintaining steady employment, particularly among low-income parents. Yet, meeting the high costs of child care is difficult for many working families.

There has been increasing recognition that child care plays a central role in economic development, and that child care assistance should be viewed as part of a state's economic development policy.[7] By increasing the labor force participation of parents and reducing the length of time spent out of the labor force to care for young children, parents' economic productivity is enhanced through the uninterrupted accumulation of skills and human capital. This increases productivity of the economy as a whole, as well as the lifetime earnings of parents. As the Iowa economy confronts a projected labor shortage in the years to come, measures to increase labor force participation throughout our slow-growing population will take on increasing importance.

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[*] In 2004, among the 13.7 million families with children under 18 living below 200 percent of poverty, 84 percent reported some work during the year and 56 percent had a full-time, year-round worker. Among the 5.8 million families with children under 18 living below 100 percent of poverty, 69 percent reported some work during the year and 30 percent reported full-time, year-round work (US Census Bureau, Current Population Survey, 2005).

The High Cost of Child Care

The cost of child care is a significant consideration for families and it varies greatly based on where a family lives, the type of care selected and the quality of that care. Nationwide, the average annual fee for full-time, center-based infant child care ranged from $4,542 to $14,591 in 2007 and was rising faster than the rate of inflation.[8] Higher quality care is the most expensive and remains out of reach for the majority of low-income families. With formal care generally costing more than informal care, many low-income families need a subsidy for access to center-based care or a licensed family child care home.

Such high child care costs are burdensome for poor families, who pay a significantly higher share of their income for care than do upper-income families. Families living in poverty spend approximately 29 percent of their income on weekly child care costs, compared to 6 percent for families above the federal poverty level.[9] Among families headed by a working mother, the percentage of family income spent on child care is even higher. Forty percent of poor, single, working mothers who paid for child care in 2001 paid more than half of their cash income, while an additional 25 percent of these families paid 40 to 50 percent of their cash income for child care.[10]

Child care subsidies are designed to reduce these high costs and expand the child care options available to low-income families by bringing regulated care within financial reach. The National Study of Child Care for Low-Income Families confirmed that, without subsidies, much of regulated child care is too costly for low-income working families. In nearly half of the communities included in the study, fewer than 10 percent of regulated center and family home child care providers charged rates that low-income families could afford without assistance. However, in the majority of communities surveyed, subsidies were sufficient to make child care affordable at 75 percent of the regulated centers and homes. Researchers note that even though families were able to afford a wider range of child care options, in some communities they still were unable to gain access to the full range of care because not all child care providers were willing to accept the subsidy payment.[11]

Subsidies are not available to all low-income families. Iowa's Child Care Assistance (CCA) program limits eligibility to families below 145 percent of poverty. As a result, low-income families in Iowa who earn above 145 percent of the poverty level are ineligible for any subsidies but are still unable to make ends meet. These families face some of the highest child care costs relative to their incomes of any family in Iowa. Such high costs can force low-income parents to opt out of the formal child care system.

When subsidies are not available, Iowa's low-income working families face difficult circumstances. Those living just beyond Iowa's existing income eligibility limit (between 145 percent and 200 of poverty as shown in Table 1), or otherwise not accessing the Child Care Assistance program, face the untenable option of paying the full cost of care while sacrificing other basic necessities or utilizing lower quality care which undermines their employment stability and carries lifelong implications for their children. Research shows that families unable to access child care assistance are more likely to go into debt, return to welfare, choose lower quality and less stable care, or go without other basic living needs.[12] Child care assistance is particularly critical in the current economy as more families struggle with stagnant wages, job insecurity and the rising costs for food, gas and other basic necessities.

Table 1. 2008 Federal Poverty Guidelines

Persons in Family or Household	100%	145%	200%
1	$10,400	$15,080	$20,800
2	14,000	20,300	28,000
3	17,600	25,520	35,200
4	21,200	30,740	42,200
5	24,800	35,960	49,600
For each additional person, add	3,600	5,220	7,200

Source: US Department of Health and Human Services, 2008 HHS Poverty Guidelines

Child Care Related Barriers to Employment

As daunting as high child care costs are for working families, the absence of regular or stable child care appears to be even greater as employment problems arise. When child care arrangements break down, workers face the prospect of losing pay and potentially losing employment. A statewide household survey in Minnesota found that 20 percent of parents reported child care problems that interfered with getting or keeping a job within the prior year and 37 percent reported having lost time or income due to a child care problem other than a sick child.[13]

Among Temporary Assistance to Needy Families (TANF)[†] recipients and leavers, surveyed across 10 states including Iowa, child care problems were found to be more prevalent than transportation or housing problems.[14] Moreover, child care barriers were the only structural barrier found to be associated with a lower likelihood of employment, after controlling for other factors including human capital and personal or family problems.

Child care problems also appear to constrain the employment options and career paths of low-income working parents who do not receive TANF benefits. For example, among subsidy-eligible parents in Washington, over half reported that they were unable to find work on certain shifts, close to one-third reported they worked fewer hours, and one-fifth reported having turned down a job because of child care responsibilities.[15]

While child care barriers are experienced by families of all income groups, they are more common among low-income working families and TANF recipients. According to the National Survey of Children's Health, among families with income below 150 percent of the federal poverty level, 15 percent experienced child care related job problems (meaning that parents had to quit a job, not take a job, or greatly change their job because of child care problems), compared to 9 percent of those living in families with incomes above 150 percent of poverty.[16]

For the majority of low-income workers and recent TANF leavers, receipt of a child care subsidy can lessen employment problems related to child care. According to a study of working mothers in Philadelphia, parents who receive child care subsidies are 56 percent less likely to report having to change shifts or work schedules, reduce work hours or work fewer hours than desired.[17]

The Employment Effects of Subsidies

Related to the first goal of the Child Care Development Fund (CCDF), subsidies are intended to support parent employment. Research shows that low-income mothers who receive child care assistance are more likely to be employed, work more hours, work standard schedules, sustain employment and earn more.[18] While the exact causal relationship between child care and employment is difficult to establish, these studies provide evidence that subsidies are helping families transition from welfare to work and play a key role on the journey to economic self-sufficiency.

A number of studies have confirmed that child care costs are a significant barrier to women's labor force participation, reducing the employment rate of mothers.[19] Research has also been conducted over the past 15 years on how child care subsidies directly affect employment rates. These studies are particularly useful in estimating how many of the recipients are working only because subsidies are available as they

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[†] TANF provides cash assistance, along with employment and training services, to low-income families with children while they strive to become self-sufficient. To qualify for TANF, families must have very few assets and little or no income. Cash assistance payments are based on family size and income; Iowa's average monthly TANF grant to families was $320.22 in Fiscal Year 2008.

evaluated subsidizing all or most of the cost of child care. While there has been a wide range of results from these studies using different data sources and populations, the studies are consistent in showing that child care subsidies have a significant effect on the proportion of single mothers who work. A median estimate from a group of 13 studies on the relationships between child care subsidies and employment suggests that the existence of subsidized child care (covering most or all child care costs for working parents with incomes below about 150 percent of poverty) raises the employment rate of these parents by about 11 percentage points.[20] In other words, if 60 percent of single mothers would be employed even in the absence of subsidies, the existence of subsidies would increase the employment rate to 71 percent.

Further research confirms an important relationship between the cost of child care, maternal employment, family income and long-term job stability. Studies show that child care subsidies are not only linked to higher rates of employment[21] but also to longer periods of sustained employment[22] as well as higher wages.[23] These findings have been replicated across multiple states, data sets and methods – including administrative data, simulation models based on national data, and welfare demonstration projects.[24]

For example, a longitudinal survey of welfare leavers in Michigan found that parents receiving subsidies had a 50 percent increase in months worked and a 105 percent increase in earnings. Additionally, former welfare recipients with young children were 82 percent more likely to be employed after two years if they received help paying for child care.[25] A separate study of welfare recipients and leavers in Illinois, Maryland and Massachusetts found a strong correlation between child care subsidy use and job retention. Even after controlling for a range of socioeconomic and demographic characteristics, a child care subsidy decreased the probability of ending employment over the study period by 25 to 43 percent, depending on the state.[26]

Another study analyzing longitudinal Census Bureau data further substantiates the strong correlation between child care subsidy use and job retention, reporting that single mothers of young children receiving child care assistance were 40 percent more likely, and former welfare recipients receiving child care assistance were 60 percent more likely, to still be employed after two years than those who did not receive any help paying for child care.[27]

In some cases, child care assistance can be more effective than other work support programs in serving as a work incentive. For instance, researcher David Blau notes that a child care subsidy generates more additional hours worked per dollar of government spending than a comparable wage subsidy.[28]

Why Quality Matters – what quality child care could mean for Iowa

To achieve the second of CCDF's goals and garner larger returns to the state budget, the quality of care purchased with Iowa's child care subsidies must be addressed. The greatest returns to investments in the Child Care Assistance program come not through gains in adult employment, but through improvements in children's daily lives which lead to long-term advancement. Quality care leads to positive outcomes for children and helps to provide the foundation needed for success both in school and later in life. It is ultimately much less costly to build social, cognitive and communication competencies in high quality child care settings than it is to remedy those deficits when children are in elementary school. The effects of poor quality care can be expected to show up in lower language, literacy, academic and social skills in Iowa's kindergartens.

Brain development research shows that the earliest years of life are the most critical. In fact, 80 percent of a child's brain develops by the age of three, and 90 percent by the age of five.[29] Experiences during the infant and toddler years shape the architecture of the brain – including cognitive, linguistic, social and emotional capacities – at a phenomenal rate and lay the foundation for future growth and learning.

Furthermore, research on the effect of caregivers during these early years clearly shows that the caregiver's education, training and ability to provide a safe and stimulating environment have an impact on the children's cognitive and emotional development. Positive child outcomes have been associated with better quality care and negative child outcomes with poorer quality care, even after controlling for mothers' education level and children's age.[30]

While it is well documented that high-quality child care supports long-term child development and is linked to higher vocabulary scores, math and language abilities, and success in school for all children, the quality of care received appears to have greater impacts among economically-disadvantaged children. Low-income children in high-quality centers show the strongest gains in early learning and cognitive development.[31]

Child care quality has a long-term impact because it is not only associated with concurrent development, but also with development over time. Long-term studies have found that investments in early childhood education result in greater success in school, less grade retention, less need for special education, higher graduation rates, higher employment and earnings, better health outcomes, less welfare dependency and lower crime rates – all of which lead to increased government revenues and reduced government expenditures.[32] Additional public returns are possible when investments in early childhood education create jobs in a community and that program invests in the education of low-income community residents so they can fill these jobs. This process creates additional human capital in communities that need it the most, rather than letting existing child care jobs disappear in favor of credentialed providers outside the community.[33]

In a landmark 2007 study, Robert Lynch demonstrated that investments in high-quality early childhood education not only pay for themselves, but are "an effective public policy strategy for generating wealth and achieving a multitude of social and economic development objectives."[34] While investments in high-quality early childhood education require a significant initial financial outlay, there is a substantial payoff in the future with reduced costs for special education, criminal justice and child welfare, as well as increased earnings and taxes.

Lynch calculated that a high-quality early childhood program targeting young Iowa children from low-income families would generate rapidly growing annual benefits that would surpass the more slowly growing annual costs of the program in 10 years, with $2.17 billion in annual budgetary, earnings, and crime benefits for Iowa once the program was fully implemented.[‡] These annual benefits would exceed the costs of the programs by a ratio of 13.1 to 1.

Lynch also examined the rate of return taking into account only the costs borne by and budget gains for state government. He calculated that if Iowa paid all of the costs of the targeted program, with no additional federal support, the program would still be a boon to the state budget. Iowa would experience net budget savings in 12 years and by 2050 every dollar spent on the program would return $1.97 in increased taxes and budgetary savings, yielding a surplus of $154 million.

Iowa's Shared Vision program is similar in nature to the type of program Lynch recommends, but the eligibility limit remains low (130 percent of FPL) and it is available only as a demonstration program. Iowa's relatively new "preschool for all" program is not targeted to low income children and does not meet the criteria for comprehensiveness, though it could be expanded with additional funding.

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‡ Assumes a program targeting 3 and 4-year-old children from families living in the lowest quarter of the income distribution, implemented in 2007 through 2050. Returns are reported in 2006 dollars.

Lynch's conclusion that investments in high-quality early childhood education programs can improve the quality of life for millions of children, make the future workforce more productive, strengthen the economy, reduce crime and provide future budget relief, gives Iowa an opportunity to garner significant returns by ensuring that the care purchased under the Child Care Assistance program is of high quality.

Iowa's Child Care Landscape – Cost, Quality and the Subsidy Program

Children in subsidized child care may be in licensed child care centers or in a home-based setting, and the latter may or may not be registered (because registration is voluntary). Family child care homes can serve no more than 6 preschool children at one time, including the provider's own preschool age children. The majority of children served in Iowa's CCA program were cared for in licensed centers and registered homes (80 percent), while only one-fifth were in non-regulated homes (17 percent) or cared for by their relatives (3 percent).[35]

In Iowa, the average annual cost of center-based infant care is $7,360, which represents 33 percent of the median income for single mother families with children under 18. Table 2 shows that average annual fees for full-time child care of children under age 5 are higher than the average tuition at Iowa's regent universities.

Table 2. Average Annual Full-Time Fees in Iowa*

Infant		4-year-old		Before & After School		College Tuition
Center	Home	Center	Home	Center	Home	Regent University
$7,360	$5,743	$5,939	$5,294	$3,233	$2,902	$5,094

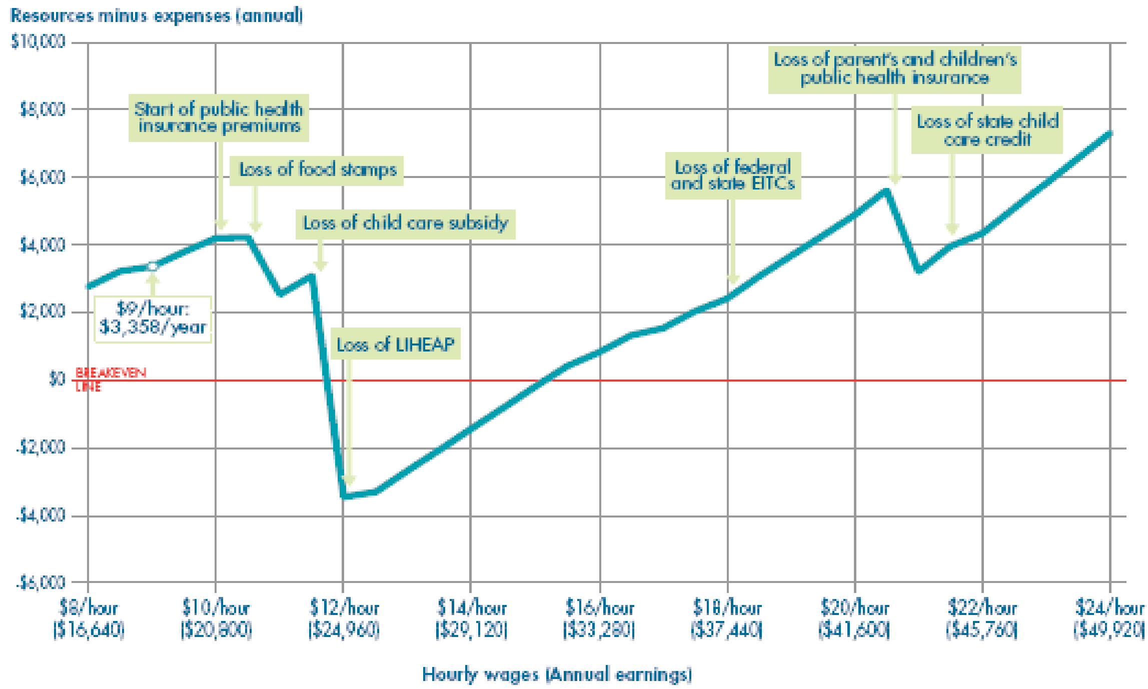
Source: NACCRRA, 2008 Child Care in the State of Iowa; Board of Regents, State of Iowa, Approval of 2007-08 Tuition & Fees

*"Center" refers to child care provided in a center-based facility which is licensed by the state; "Home" refers to child care provided in a home-based setting which can be voluntarily registered with the state if the provider chooses.

Iowa's child care subsidy program currently provides financial assistance to families who are living below 145 percent of poverty, working or attending school full-time and have children under the age of 14. While the child care subsidy program is designed to make child care more affordable, Iowa's income eligibility level is among the lowest in the country. At 145 percent of the federal poverty level ($25,520 for a family of three), Iowa ranks 47th among states.[36] This low eligibility limit creates a disincentive to work, as parents can be penalized for even small increases in income and can lose substantial benefits before their wages are high enough to fully support the costs of child care.

Common sense suggests that a family is always better off as its income increases. However, the low income eligibility limits of the Child Care Assistance program can create problems for families who face a sudden loss of eligibility as their earnings rise. Figure 1 shows how a representative Iowa family's total resources are affected as hourly wages rise and the family loses eligibility for various work support programs. The most dramatic loss of resources occurs when wages rise to around $12.00 an hour and the family loses child care assistance. This family plunges far below the breakeven line (the point at which the family's total resources equal their basic expenses) when they lose assistance and are covering the high cost of child care on their own. Just after the family loses child care assistance, they are also hit by the loss of Low-Income Home Energy Assistance Program (LIHEAP) benefits. This family does not breakeven again until wages reach about $15.50 an hour, or over $32,000 a year, and will have to work their wages up to over $18 an hour before regaining the ground they lost. A subsidy program that rewards workforce advancement would yield a continuously upward line with net resources for the family increasing as earnings grew, as reflected in the gradual phasing out of earned income tax credits (EITCs).[37]

Figure 1. Net Family Resources as Earnings Increase for Single Parent with Two Children (ages 2 and 6) in Des Moines, IA



Source: NCCP's Family Resource Simulator, Iowa 2008 <www.nccp.org/tools/frs> When eligible, the family receives the following work supports: federal and state tax credits, food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's *The Cost of Living in Iowa*.

The problems portrayed in the graph above are not hypothetical, nor are they new. The work disincentives inherent in eligibility cutoffs have been recognized for some time, and the stories of real Iowa families confronting these benefit cliffs have been documented.[38]

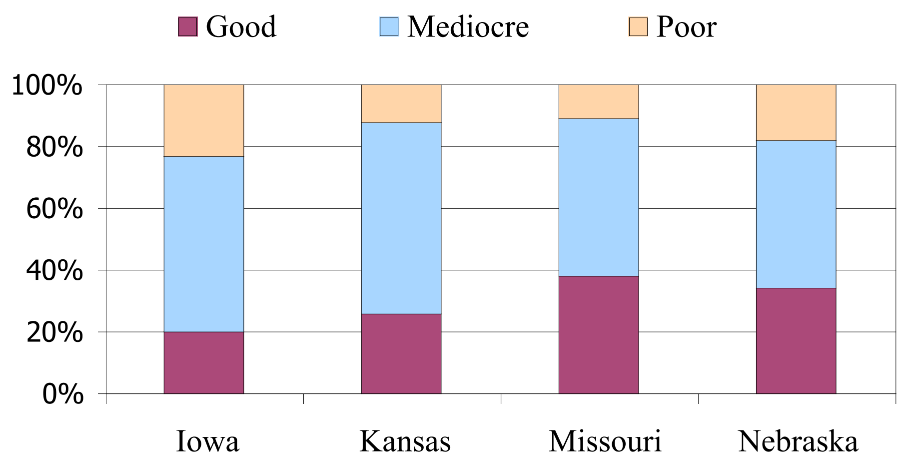
In 2006, Iowa's child care subsidy program served 19,400 children. This amounted to only about 32 percent of eligible children.[39] There are a number of reasons why more eligible families are not utilizing child care subsidies. First, not all families are aware that they are eligible for assistance, particularly low-income working families who have never been part of the state's TANF program.

To understand the second factor contributing to low utilization rates one must understand how the reimbursement system works. A parent with a child eligible for subsidized child care will seek a child care provider who participates in the state subsidy program. By participating, the provider must accept the reimbursement rate established by the state. If that rate is lower than the normal fees charged by a provider, the provider must either accept the lower fees for children in the subsidy program, or decide not to accept subsidy participants. Providers are not allowed to charge parents the difference between subsidy payments and their regular rates for non-subsidized children. If the parent has income between 100 and 145 percent of poverty, the parent will be required to make a co-payment that increases with income; this co-pay does not however increase the amount received by the provider.

Some child care providers are unwilling to accept subsidies due to slow state payments and low reimbursement rates. Providers have reported that their unwillingness to participate is due to their inability to wait weeks for payment of services or to accept low reimbursement rates, which for 2008 are based on the 75th percentile of 2004 market rates.[§] As child care costs have continued to rise, state subsidy payments have not kept pace with market costs.

The quality of care available to low-income parents is also an area of concern. The Midwest Child Care Research Consortium conducted an observational study of child care quality in four Midwestern states and determined that the quality of care in infant centers and family child care homes in Iowa was significantly lower than the quality in Kansas, Missouri and Nebraska.[40] Child care center programs for preschool-age children, on the other hand, were comparable in quality to the other three states. Unfortunately, the average quality of care for all types (infant, family home, and center care) in all four states fell in the mediocre range, as Figure 2 shows.

Figure 2. Percentage of Poor, Mediocre and Good Quality Child Care in Iowa



Source: Midwest Child Care Consortium. Iowa Child Care Characteristics and Quality. 2003, p. 11

The quality of Iowa's child care varies by setting. As our strongest setting, almost 40 percent of the center-based preschool-age care in Iowa is good quality. Next, approximately 25 percent of the care provided by family home child care providers is of good quality. While no instances of good quality were directly observed among infant-toddler center-based providers, fewer than 20 percent of these classrooms actually provided poor quality care.[41]

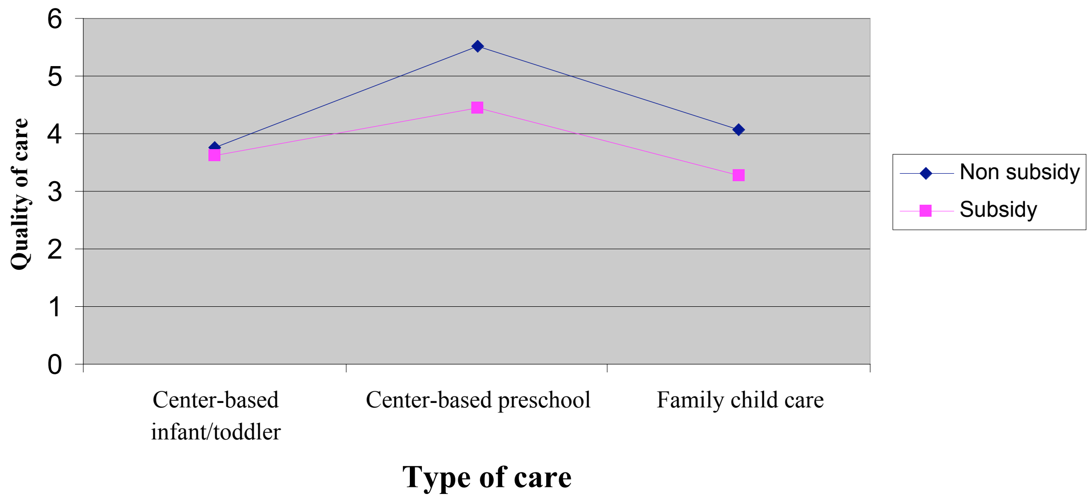
When examining the supply of high-quality programs, researchers found that only a small portion of Iowa's child care is good quality or better. "Particularly notable is the fact that a much higher proportion of the preschool center based childcare is of good quality (i.e., app. 40 percent) than is true within the other types of care. It is also important to note the high proportion of family home child care within the poor quality range (i.e., app. 40 percent), as well as the fact that no examples of high-quality care were observed among infant-toddler centers."[42]

The Midwest Child Care Research Consortium, examining the quality of child care received by children served under the Iowa's subsidy program, determined the mean level of observed quality was lower among preschool centers and registered family child care homes receiving subsidies than for those programs that did not receive subsidies (see Figure 3). Consortium researchers found no statistically significant differences between the quality of care provided by those who did and did not receive subsidies in infant center-based settings; however, the quality in these settings was quite low. Because

§ A survey of providers was conducted in 2004; the rate at the 75th percentile of providers from this survey defines the reimbursement rate for all providers in the future. The 75th percentile represents the rate at which 75 percent of providers charge less, 25 percent charge more. Non-registered providers, however, are reimbursed at much lower rates.

quality is related to cost, it is likely that the centers and homes willing to accept subsidies were often those that had lower rates and lower paid staff, while many higher quality providers charged fees above the reimbursement level allowed by the state and were unwilling to participate in the subsidy program.

Figure 3. Observed quality in three types of Iowa child care by subsidy receipt.[**]



Source: Midwest Child Care Consortium. Iowa Child Care Characteristics and Quality. 2003, p. 33

In addition to direct observation of quality, researchers assessed the frequency of other high-quality practices among subsidized providers. They concluded that subsidy may also be associated with less optimal interactions between caregivers and children. Because the most important element of quality, regardless of setting, is the relationship between the child and the caregiver, these findings give cause for concern and prompt policy action.

Iowa's relatively low child care quality has been linked to inadequate regulatory standards and enforcement as well as low wages and training among child care providers. In 2008, Iowa's child care regulatory system was ranked 46th by the National Association of Child Care Resource and Referral Agencies, largely because of a lack of regulatory staff and because there are no pre-visits or training requirements before a registered home child care provider begins caring for children.[43] In fact, Iowa has the highest regulatory staff caseload in the country. While the national average ratio of regulatory staff to child care facilities is 130:1, Iowa only has one regulatory staff member for every 529 child care facilities.[44] Additionally, the Department of Human Services performs spot checks for only 20 percent of registered homes, which is primarily accomplished by investigating complaints. Between the unregulated homes and the remaining uninvestigated regulated homes, most children using child care are in settings that are not subject to regulatory oversight to ensure their safety and security. This lack of oversight is of particular concern because 5,500 registered family home providers and 6,100 unregistered providers currently receive subsidy payments from the state.[45]

[**] Researchers used "gold standard" observers in the following well-known assessments of child care quality: Infant-Toddler Environmental Rating Scale (ITERS), Early Childhood Environmental Rating Scale-Revised (ECERS-R), and Family Day Care Rating Scale (FDCRS). These rating scales provide industry standard measures of child care quality, with a score of *5 or higher* defined as good quality, a score *between 3 and 5* defined as mediocre or minimal quality, and a score *less than 3* defined as poor quality.

Regarding Iowa's child care workforce, wages are well below the national average. Among the Midwestern states studied by the Consortium, Iowa caregivers earned the lowest salaries for full-time work ($12,410 per year).[46] Furthermore, Iowa providers completed fewer training hours than providers in the other three states. More problematic is the fact that providers receiving subsidies in Iowa have lower levels of education than providers who do not receive subsidies, which means that Iowa children who are more vulnerable because of poverty are cared for by the least educated providers.

Estimating the State Fiscal Returns to Child Care Subsidies

Expanding eligibility for Child Care Assistance, to bring Iowa's program closer to the national average eligibility limits, would be an important reform. The Iowa Legislature has previously considered proposals to expand the eligibility ceiling from 145 percent to 200 percent of poverty. The Legislative Services Agency (LSA) in 2007 estimated the cost of such a change for FY2009 to be $30.6 million annually, with all of the cost coming from state funds.

The direct cost to the state of expanding eligibility would be offset at least in part by higher state tax revenues for several reasons. For those parents able to take jobs because of the child care subsidy program, incomes will be raised, reliance on other income supports such as TANF and food stamps will be reduced, and they will begin to pay more in state income and sales taxes. For those who were already working, but now have higher disposable income, they will also contribute more sales taxes, since the money previously spent on child care (which is sales tax exempt) will now partly be spent on taxable goods and services. In addition, income tax payments may increase in cases where family income is above the zero-tax threshold and where the loss of the child care deduction (because child care costs are now reimbursed) raises taxable income. Other families may work more hours, remain employed for longer periods of time or find a higher paying job, with similar effects on state revenue and expenditure. Here we report our estimates of the size of these state fiscal effects. Details on the methodology and data sources used to produce these estimates can be found in the appendix.

The employment effects arise in part because the expansion of eligibility would moderate the severe "cliff effects" noted previously. Under the existing program, a co-pay schedule requires that families begin to pay a "unit fee" for each half day of child care once income exceeds the poverty level, and this co-pay rises with income.[††] For example, a family with two children in care at the eligibility ceiling of 145 percent of poverty would pay $3.70 per half day out of pocket. If the children are in center-based care costing $12,000 per year for full days, or $6,000 for half days, the co-pay is equivalent to 31 percent of the cost. As family income rises from 145 percent to 146 percent of poverty, then, the family suddenly goes from paying 31 percent of the cost of child care to 100 percent of the cost. This is a severe disincentive to earning more.

Raising eligibility to 200 percent of poverty could be accomplished while using the existing co-pay schedule (which is the assumption underlying the LSA cost estimate).[47] Under this schedule, co-pays continue to rise gradually, reaching $6.70 per half day at the income ceiling of 200 percent of poverty. Our example family with two children in care would be paying 51 percent of the cost of child care when the eligibility limit is reached. While there is still a sizable cliff, it is noticeably smaller than under the existing program (the jump in costs being 49 percent of child care costs rather than 69 percent). More importantly, the cliff occurs at a higher income level where families are more able to absorb the additional child care costs.

[††] The existing schedule goes up to 200 percent of poverty because that is the current eligibility ceiling for special needs children. Under the proposal, this schedule would apply to all children.

The cliff effect could be further reduced, or even largely eliminated, by increasing the co-pays as one moves from 145 percent to 200 percent of poverty. While this would reduce state costs, it would also presumably reduce the employment and income effects of the subsidy program for many potential participants.[‡‡] In the analysis that follows we assume the existing co-pay schedule remains in place.

Effect of Existing Child Care Subsidies

Iowa's Child Care Assistance program provides benefits primarily to employed single mothers who have one or more children under age 14. There were about 65,900 female-headed single-parent families with at least one child under age 14 in Iowa during 2005 and 2006, according to the American Community Survey.[48] In about 47,900 of these families, or 73 percent, the mother was employed.

How many of the employed single parents in Iowa are employed because of the availability of child care subsidies? We can estimate this number based on the research on the effects of child care subsidies cited previously. The median result from 13 studies examined was that the existence of subsidies raised the employment rate of single mothers by 11 percentage points. Since Iowa's program is more restrictive (lower eligibility limits) than the average state, we assume a lower rate of 8 percentage points for estimation purposes here.[§§]

If Iowa's Child Care Assistance program was responsible for an 8 percentage point increase in employment, 42,600 of the mothers (65 percent, instead of 73 percent) would have been employed even without the subsidies. Thus about 5,270 of the employed heads of these families are employed because of the existence of the child care subsidy program. The estimate of 5,270 represents about 66 percent of the 8,000 single-parent families currently receiving child care subsidies in Iowa. The other 34 percent would presumably have been employed even without the subsidies, relying on relatives or other inexpensive child care arrangements, working part time, and/or simply getting by on less.

We estimate that on average these families increased their family income by about $6,000 as a result of employment. Taxes paid by these families would increase by about $448 per year, from the $469 in sales and excise taxes paid when not employed, to the $917 in income, sales and excise taxes paid when employed. The total annual state tax revenue obtained from the approximately 5,270 single-mother families whose employment is attributable to child care subsidies would therefore be about $2.4 million.

Additional tax revenue can be attributed to the subsidy program from married couple families where employment of both parents was made possible by subsidies. However, such a small number of families is potentially involved that we have not developed an estimate of additional revenue from this source.

Research has also shown that child care subsidies increase employment stability. Several studies, for example, have shown that, two years after leaving TANF, single mothers are 40 percent to 80 percent

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[‡‡] By gradually raising co-pays above their existing levels, the transition from paying about 30 percent of costs at 145 percent of FPL to paying 100 percent of costs at 200+ percent of FPL would be smoother, because the co-pay fraction would approach 100 percent as income approached 200 percent of poverty. This means, however, that some married-couple families with pre-schoolers, for example, where a stay-at-home parent is contemplating taking a job that would put the family at, say, 175 percent of poverty, may not find it worthwhile to do so with the higher co-pays but would with the existing schedule.

[§§] This is also the percent assumed, conservatively, by the Urban Institute in its simulation model (Linda Giannarelli, with Joyce Morton and Laura Wheaton, "Estimating the Anti-poverty Effects of Changes in Taxes and Benefits with the TRIM3 Microsimulation Model," Urban Institute Technical Report, April 2007). Those researchers found 8 percent to be about the low end of the estimates. We do not rely on the elasticity studies cited earlier because these studies were based on relatively small differences in the price of child care, whereas we are focusing on the presence of 100 percent subsidies versus no subsidies. It would be questionable to assume that the typical elasticity of -0.3, for example, would apply to such a drastic price change; that would imply the 100 percent reduction in price produced by a full subsidy would produce a 30 percent increase in the employment rate. This is much higher than most studies have shown that examine subsidy vs. no subsidy.

more likely still to be employed if they are receiving child care subsidies.[49] Other studies have shown that child care assistance dramatically reduces the probability of leaving a job.[50] These results reinforce the above findings on the employment and fiscal effects of subsidies, since they show that the greater rates of employment are not ephemeral. Subsidy recipients are not only better able to take a job, but better able to keep it, indicating that the fiscal benefits to the state will persist.

Effect of Raising the Eligibility Ceiling

Raising the income ceiling on eligibility for child care subsidies from 145 percent to 200 percent of poverty would draw additional parents into the labor market and allow others already receiving the subsidy to increase their work hours or move to a higher paying job. It would also increase the disposable income of some families already working but paying child care expenses out of pocket. And it would lift families out of poverty, improving the outcomes for those children as adults, resulting in higher earnings and reduced reliance on public assistance.

Expanding Eligibility Raises Earnings and Tax Payments

Consider first the effect on disposable income for those already working and paying for child care. If the ceiling were raised to 200 percent of poverty, about 8,350 additional single-mother families with the mother already employed would now qualify for subsidies. These families have an average income of $26,650. For such families, the subsidies do not induce employment but do increase disposable income by substantially reducing child care expense. They will pay more income taxes because the child care credit is reduced, and they will pay more sales and excise taxes because what was previously spent on non-taxable child care will now be spent in part on taxable goods and services.

The Legislative Services Agency recently estimated that an expansion of eligibility to 200 percent of poverty would result in about 7,650 more children in the Child Care Assistance program.[51] With an average of 2.2 children per family, that implies 3,475 additional families using the program. This represents about 42 percent of the eligible families.

Let us assume that on average such families have two children, ages 3 and 6, needing child care. (Two-thirds of single-parent families in the Iowa child care assistance program now have either one or two children; the mean number of qualifying children is 2.2.)[52] Since these families were not receiving subsidies previously, we assume conservatively that they found the least expensive child care arrangements: unregistered home-based care. In Iowa in 2008 this would cost the family about $9,870 annually, assuming full-time care for the 3-year old, part time for the 6-year old.

If this family now received subsidized child care, their disposable income would rise by the savings in child care costs, less an increase in federal and state taxes due to a reduction in the child care tax credit. Their net gain would be about $6,000. About 4.4 percent of that additional income would go to state sales and excise taxes, or $266 per family. Adding this to the additional $547 in state income taxes because of the loss of the child care credit, gives a total additional state gain in tax contributions from this family of $813. The total for all 3,475 families under these assumptions would be an additional $2.8 million per year in state taxes. If we assume instead a family with two children ages 2 and 5, with both in full-time care, the increase in disposable income would be nearly $9,000, and resulting higher taxes $940. Total state taxes per year would then be $3.3 million.

Next consider the effect of a higher ceiling on the employment rate of single mothers. Some number of single mothers who currently are not employed would be able to obtain jobs due to the higher eligibility ceiling. There are currently about 12,850 single mothers in Iowa with at least one child under 14 who are not employed but whose total family income is below the poverty level.[***] For some mothers in this situation, a full-time job could lift the family out of poverty (but leave them below twice the poverty level) if the cost of child care were subsidized.

To estimate how many more single mothers would become employed, we can use existing research to an extent. The Urban Institute conducted a state-level policy simulation for Minnesota involving an increase in the eligibility ceiling, and assumed an employment effect one-half the size of the 8 percent effect assumed in national simulations. Since that policy was a somewhat more expansive change than what we are simulating here, we use a range of effects, from 2 percent to 4 percent.

Raising the eligibility ceiling would, we estimate, increase employment among single mothers with younger children by somewhere between 550 and 1,400. We estimate that each newly employed parent would pay about $1,040 more in state income, sales and excise taxes. This would generate a total of $0.6 million to $1.5 million in additional annual revenue to the state.

A more important employment effect would occur among married couple families where only one parent is currently working. Imagine a family with two children ages 2 and 5. With one income of $24,000 per year and no child care expenses the family can get by, though they are just above the poverty line. If the spouse were also to work, the couple would face child care expenses of $12,000 annually for center-based care. But if the spouse were to work full time at minimum wage (earning about $14,000 per year) family income would be well above the subsidy eligibility ceiling and the additional income would barely cover the $12,000 in child care expense.[†††] So the spouse does the only sensible thing: stays home to care for the children, or works only part time. But raising the eligibility ceiling to 200 percent of poverty would allow the family to earn up to $42,400 and still receive the child care subsidy (though with co-pays up to about half the cost).[‡‡‡] The spouse could now obtain up to a full-time $10 per hour job and the family would be much better off.

There are about 12,300 married couple families in Iowa with at least one child under 14, with only one parent employed and who currently have incomes below poverty, or somewhat above. Their average family income is $23,700.[53] This is the pool of married couple families who could be induced to take advantage of a higher ceiling on eligibility, the second parent finding full-time employment, or working part time at a higher wage. The average married couple family in Iowa with a child under 14, both parents employed, and with a family income between 145 and 200 percent of poverty, has an income of $40,300. If we assume that the single-earner families induced to increase employment of the secondary earner move into this income range, the gain in family income (after deducting child care co-pays) averages $13,400.

We assume that the employment effect of raising the ceiling would be 2 percent to 4 percent, as we did for single mothers.[§§§] This would mean an additional 900 to 1,750 married couples with both spouses working. The gain in income would produce an estimated $1,200 in additional state taxes per family, for a total gain to the state of $1.1 million to $2.1 million.

[***] There are another 2,900 single-mother families with children under 14 who have incomes between 100 percent and 200 percent of poverty and who are not employed. Since TANF and food stamp benefits alone are unlikely to lift such families above poverty, many such families must have income from another source, such as child support or alimony. This kind of income would remain even if they obtained full-time employment, and this income plus full-time earnings would likely push them above the 200 percent eligibility ceiling. For this reason, we focus on unemployed mothers currently in poverty.

[†††] Family income would now be $38,000, while 145 percent of the poverty level was $30,740 in 2008.

[‡‡‡] The 2008 poverty guideline for a family of four was $21,200.

[§§§] We note that the Urban Institute, in its simulation for Minnesota cited previously, assumed the same percentage point increase in employment (4 percent) for married-couple and single-parent families.

The final kind of effect cannot be quantified. This is the effect of a higher ceiling in causing those already employed and receiving subsidies to work more hours or move to a higher paying job, when doing so would have triggered elimination of the subsidy with an eligibility ceiling of 145 percent of poverty. While there is research indicating that such effects do occur, it is difficult to know how many subsidy recipients in Iowa currently are working less than full time, or are qualified for a higher paying job. It is likely that this would be the smallest of the three effects at any rate.

As we noted above, there is also research showing that recipients of child care assistance stay employed longer. While this does not constitute an effect in addition to the employment effect estimated above, it does reinforce those estimates and indicate that the fiscal benefits will indeed be persistent.

A summary of the state revenue effects of raising the eligibility ceiling appears in Table 3 below. The estimates range from $4.5 million to $6.8 million annually in additional state tax revenue.

Table 3. State Tax Revenue Gained by Raising Eligibility Ceiling to 200 Percent of Poverty
($ millions)

	Low Estimate	High Estimate
Revenue from additional parents working		
Single mothers	$0.6	$1.5
Secondary earner in married couple families	1.1	2.1
Revenue from higher disposable income of families already employed but with unsubsidized child care	2.8	3.3
Total	$4.5	$6.8

Expanding Eligibility Reduces Poverty

The consequences of growing up in poverty have been well-documented.[54] Children growing up below the poverty line have poorer health outcomes, lower educational attainment and are more likely to become involved with the criminal justice system compared to children growing up in higher-income families. These consequences often carry into adulthood. Relative to adults who grew up in middle- or upper-income families, adults who grew up in poverty are more likely to complete less schooling, earn lower wages, experience physical and mental issues, face criminal charges and become a teen parent.

The costs of poverty are not limited to the individual level. In addition to the social costs for children and families, poverty has the potential to decrease a state's economic productivity. Recent estimates suggest that growing up in poverty costs Iowa $3.6 billion annually in the form of forgone earnings, criminal activity and costs associated with poor health.[55]

Childhood poverty drains public resources into the future as poor job skills, limited participation in the labor force and early childbearing reduce potential tax revenues and increase the likelihood of food stamp and TANF cash assistance. At the national level, it is estimated that eliminating poverty from the prenatal year through age 5 provides more tax revenues (between $10,600 and $20,000 per child), as well as fewer expenditures on food stamps ($2,000 per child) and TANF assistance ($1,600 per female child). The total federal and state taxpayer benefits of raising children out of poverty range from $14,200 to $23,600 per child.[56] Additionally, the benefits of bringing a poor child's family income up to 150 percent of the poverty level is correspondingly greater, with increased tax revenue accounting for most of the increase and reductions in TANF adding smaller sums.

The Urban Institute simulated the effects of raising Minnesota's child care assistance eligibility ceiling from 170 percent to 300 percent of poverty, while guaranteeing availability of the subsidy. The simulation showed that this policy change would reduce the overall poverty rate in the state from 9.1

percent to 8.3 percent, by increasing disposable incomes of poor families through greater employment rates, and through greater disposable incomes of those already employed. The poverty rate among children under 18 would fall from 8.7 percent to 7.2 percent.

It may seem counterintuitive that a program change affecting only those with incomes over 170 percent of poverty could reduce poverty. About two-thirds of the poverty reduction came from married-couple families where previously only one spouse was working and the family was poor. When the eligibility limit is raised, the second spouse obtains employment that previously would have pushed total income above the eligibility limit but now does not. With subsidized child care the second spouse's employment now makes sense and leaves the family better off, and above poverty. The other third of the poverty reduction comes from a variety of situations, including families who were poor on an annual basis but worked only sporadically, and for the months that they did work, their earnings put them above the eligibility threshold for that month. The higher ceiling allows them to receive assistance when they do work, raising their disposable income above the poverty threshold.[57] This measured poverty reduction occurs because the Urban Institute study employed a different measure of poverty that deducts the out-of-pocket cost of child care from family resources, unlike the official definition.

The effect of the more modest proposal we are considering – raising eligibility from 145 percent to 200 percent – would probably be smaller. The Minnesota simulation involves moving from a system with a waiting list to one with guaranteed availability, whereas Iowa does not have a waiting list for assistance. Thus some of the poverty reduction effect in Minnesota comes simply from moving poor households off the waiting list into the program. On the other hand, Minnesota's eligibility ceiling is already a little higher than Iowa's. Thus those who would have been raised out of poverty by increasing the ceiling from 145 percent to 170 percent of poverty are not counted in the Urban Institute simulation.

We assume, conservatively, that raising the income ceiling for child care assistance from 145 percent to 200 percent of poverty will reduce poverty in Iowa by one-third the amount found in the Minnesota study. In other words, we assume a reduction of 0.3 percentage points overall, 0.5 percentage points for children. These reductions in the poverty rate would raise about 8,600 persons out of poverty in Iowa, among them 3,500 children.

The long-term benefits from poverty reduction are greatest when they occur in the earliest years of a child's life. We assume, conservatively, that just half of the 3,500 children lifted out of poverty by the expansion of eligibility would be under age 6, and we focus on the lifetime benefits to those children.

Eliminating poverty for a child under the age of 6 will, according to research, increase earnings as an adult by 28.7 percent per year, for a lifetime earnings increase of between $53,000 and $100,000 (depending on the length of time over which the earnings increase is sustained).[58] This gain in earnings would produce additional state income and sales tax revenue in Iowa of about $400 per year for each person.

These gains in income and tax revenue accumulate, as over time more and more of the adult population consists of those who would have been poor as children were it not for their family receiving child care assistance. We assume that half of those children will remain in Iowa through 30 years of adult work, or to age 55, while the other half will migrate elsewhere before reaching age 25, which is a somewhat conservative assumption based on census migration data. The total gain in tax revenue from these adults who remain would eventually reach $1.8 million per year.

Research also shows that there are significant public sector cost savings in the form of reduced spending on Food Stamps and TANF benefits.[59] Female children who were raised in poor families when they were under age 6 on average received $1,200 per year more in TANF benefits as an adult than their non-poor counterparts. This translates into a state savings of $449 per year for each female child lifted out of poverty in Iowa and an eventual total annual savings of $0.4 million.

We estimate then that the total state fiscal benefit from investments in child care subsidies will eventually reach $2.2 million annually because the reduced poverty rates among young children result in higher earnings and lower reliance on TANF benefits when those children become adults.

State Savings from Shift to Higher Quality Care

As noted earlier in this report, state investments in high-quality early childhood education show a high rate of return, for the state budget as well as for the individuals involved and for Iowa citizens. Lynch found that such a program targeted at children from low-income families would begin to pay for itself within 12 years and that eventually every dollar the state invested in such a program would return $1.97 in increased taxes and budgetary savings.

In 2006 there were 19,400 children receiving subsidized child care in Iowa, 11,000 of them under the age of 5.[60] For most of these children, the care they receive is not up to the level of the quality pre-school education upon which Lynch based his results. For purposes of illustration, we will estimate the magnitude of fiscal returns from a state investment that would ensure that all 3-year-olds receiving subsidized child care actually receive it in a setting that provides the equivalent of the quality pre-schools that were the basis of the Lynch study. We could instead look at 3- and 4-year-olds; however, the state has started down the path of ensuring free, public pre-school for all 4-year-olds in the state. We could also consider an investment in quality care for children of all ages under 4, since there are long-term benefits to quality child care for those younger than 3 as well. However, these benefits have not been as well-established and quantified. Thus, while the state would certainly receive returns on subsidizing quality care for a larger group of children, we cannot estimate that return with existing research.

There are currently about 2,300 three-year-olds in subsidized care in Iowa. Lynch estimates that a high-quality pre-kindergarten program would cost about $6,300 per child per year. This is based on a half-day (three-hour) program operating every day for 35 weeks. If none of those 2,300 children were currently receiving such high-quality care, the total annual cost of the policy intervention we are envisioning would be $14.5 million if fully funded by the state with no additional parent co-pay and no federal matching funds. Applying the ratio of $1.97 in state fiscal benefits per $1.00 invested, the program for 3-year-olds would eventually return $28.5 million each year.

This cost of $6,300 per child per year would be offset by the current cost of the subsidies we are already providing to those 2,300 children. Assuming a state-reimbursed rate of $12.00 per half day for a pre-school age child (not an infant or toddler), the offset would be about $2,100 per year.[****] Thus the additional state investment would actually be just $4,200 annually per child (the $6,300 cost of pre-school less the $2,100 current subsidy payment) or $9.6 million in total each year. The net annual fiscal return to the state would thus be $18.9 million ($28.5 million in fiscal gains from quality pre-school less the $9.6 million in additional state cost).

A larger program extending quality child care to more children would increase the state's fiscal return proportionately. Added to the fiscal returns of $6.8 million to $9.1 million from the higher earnings of adults and the benefits of reducing poverty among children, the state's investment in expanding

[****] The total is $12 per half day times 5 days per week times the 35 weeks that pre-school is substituted for day care. The $12 cost is the 2006 provider rate for basic care for a pre-schooler in a Category A or B registered home. The cost in a non-registered home was $7.19, in a Category C registered home $12.50, and in a licensed center $13.93. From a memo by Deborah Helsen, Iowa Legislative Services Agency, to Representative Petersen, December, 2008.

eligibility to 200 percent of the FPL combined with just the theoretical pre-school program for 3-year-olds could nearly pay for itself. Expanding quality child care to children below age 3 in the subsidy program would, in the long run, return more to the state than it costs.

Policy Recommendations

In order to realize these gains, Iowa must first expand the number of families who are eligible for and receiving child care assistance. Our state has a high rate of working parents, but one of the lowest eligibility limits compared to other states which discourages workforce advancement. Second, stronger efforts to expand high-quality child care options will be needed to achieve the tandem goals of the Child Care Assistance program: enabling parents to work and enhancing the development of children. Iowa has multiple avenues to achieve these goals – including the use of more TANF dollars, allocating state funds, raising co-payments and fully drawing down $18.1 million of federal stimulus funding specified for child care improvements and expansions.

The state can serve more of Iowa's families, increase the number of providers who accept subsidies and improve the quality of care purchased with the following recommendations:

1) To increase the positive employment effects of the Child Care Assistance Program and reach more working parents, Iowa should:

- Raise the income eligibility from 145 to 200 percent of the FPL;
- Set reimbursement rates at no less than the federally recommended level of the 75th percentile of <u>current</u> market rates;
- Improve the timeliness and efficiency of subsidy payments, exploring electronic benefit transfer technology, and;
- Increase outreach efforts on Child Care Assistance among low-income working families who are eligible for assistance but not connected to TANF services.

Iowa can set income eligibility and reimbursement rate policies to support stable subsidy receipt, which in turn makes it easier for low-income parents to maintain stable employment. Changes in Iowa's administrative practices, such as improved efficiency in payment of subsidies and increased information about child care options at the time of application, may improve subsidy utilization and the quality of care purchased with state funds. Research suggests enhancements to the subsidy program have had positive effects on meeting the goals of parent employment and improved child development, including improving the accuracy of information families have about subsidies and about quality selection, as well as the way in which the subsidy program functions.

Income Eligibility Limits

With one of lowest income eligibility limits in the country, Iowa should raise its income eligibility from 145 percent to 200 percent of the federal poverty level. There are a substantial number of low-income working families struggling to meet basic needs and child care expenses are one of the largest financial barriers they face in order to work. This adjustment not only moves the loss of child care subsidies to a point where families are financially better equipped to pay the full cost of care, it would also pull more Iowans into the labor force.

Reimbursement Rates

Because low reimbursement rates make it difficult for child care providers to support high-quality care and can discourage high-quality providers from serving families receiving subsidies, rates should be set at no less than the federally recommended level of the 75th percentile of current market rates. Iowa currently reimburses providers at the 75th percentile of 2004 market rates and does not allow providers to charge parents for the difference between their fees and the subsidy payment. This limits access for parents or puts increased financial burden on child care businesses – ultimately pushing families toward lower quality or less formal care arrangements.

Adequate reimbursement rates should be established to allow families receiving subsidies access to the same range of services available to unsubsidized families. Lower reimbursement rates make it difficult for families to find care, as fewer providers can afford to accept lower payments than they would get from families paying the full rate. When providers accept lower payments, they must rely on lower-paid, less well-educated staff and spend less on learning-related supplies, which has a negative impact on quality.

Subsidy Payments

In communities that have experimented with ensuring steady, timely provider payments, family child care providers were more willing to provide slots for babies and toddlers from low-income families.[61] In order to increase the number of providers accepting child care subsidies, Iowa should work to improve the timeliness and efficiency of subsidy payments, exploring electronic benefit transfer technology similar to the Reliacard used for child support.

Parent Information

In order to reach more parents who are eligible for support, Iowa should increase public awareness efforts on subsidy eligibility and application requirements, targeting outreach to low-income working families who are eligible for child care assistance but not connected to TANF services. Because making child care quality ratings available to consumers has been shown to improve quality (through more informed parent selection as well as increased licensing inspection visits and more discriminating inspector evaluations on areas in need of improvement),[62] Iowa should also expand its efforts to provide information to parents about the quality ratings of Iowa's child care providers as well as how to identify child care quality.

2) To increase the benefits garnered by providing quality child care to low-income children, Iowa should:

- Require licensure for providers caring for children under Iowa's CCA program, ensuring that all providers who receive public subsidies meet basic health and safety standards;
- Implement training requirements and pre-licensing visits to ensure that all caregivers have completed basic health and safety training before caring for children;
- Enforce CPR/First Aid training requirements, especially among family home providers;
- Expand the voluntary child care quality rating system (QRS), requiring participation from all providers receiving subsidies, and base reimbursement for providers serving subsidized children on their quality rating;
- Develop a tiered reimbursement system targeting providers involved in the child care quality rating (QRS) system and/or the WAGE$ program, with financial supports to help facilities serving subsidized children meet the requirements;
- Increase public awareness efforts to provide information on identifying child care quality as well as the quality ratings of Iowa's child care providers to parents;
- Expand the enrollment capacity of T.E.A.C.H Early Childhood Iowa to provide scholarships for the Child Development Associate (CDA) credential, as well as two- and four-year college degrees in early childhood studies; and
- Implement a program, similar to North Carolina's WAGE$ program, to increase the salaries of child care providers as they work toward two- and four-year college degrees in early childhood studies.

Iowa needs to improve child care regulations and enforcement, as well as take specific steps to raise the level of quality in our state. When raising quality standards, it is important to provide support and incentives for providers to meet new quality requirements. While the number of quality recommendations may be daunting, it is important to recognize that systematic investments in quality are beginning to positively affect the overall markers of quality in a geographical area rather than just in the specific area or program where investments were made. Even with the Midwest Consortium's determination that the quality of infant/toddler care is still not regularly in the "good" range, quality has improved when compared to previous studies.

Regulation and Enforcement

Regulatable characteristics of child care (e.g. provider-to-child ratio, group size, teacher education and teacher experience) are significantly related to the quality of early care and education. State licensing standards and subsidy policies both can promote key elements for high quality care. Iowa should continue to strengthen child care regulations and expand enforcement. Despite recent steps to strengthen Iowa's registration system for family child care home providers, Iowa continues to have the least rigorous child care regulations of its Midwest neighbors, and the lowest ratio of inspectors to providers. DHS reports that "most children in child care are not in settings that are subject to regulatory oversight that ensures their safety and security."[63] There is an immediate and urgent need to improve the quality of registered and non-registered family child care home providers who are approved to receive public subsidy dollars.

Iowa should require licensure for those providers caring for children under Iowa's Child Care Assistance program, ensuring that all providers who receive public subsidies meet basic health and safety standards. Iowa should also implement pre-service training requirements and pre-licensing visits to ensure that all caregivers have completed basic health and safety training before caring for children. Additionally, the state should enforce requirements for CPR/First Aid training, especially among family home providers.

Expand Quality Rating System

Iowa should expand its voluntary child care quality rating system (QRS), requiring participation from all providers receiving subsidies. Ratings should be based on child ratio, group size, development and learning activities, cultural and linguistic competency, staff qualifications, credentials, and staff retention. Reimbursement for providers serving subsidized children should be based on their quality rating.

Tiered Reimbursements

As an incentive, many states are experimenting with paying higher rates to accredited programs, to providers who address a specific need (such as infant or odd-hour care), or as a reward for training and educational advancement. Because regular, stable and sufficient funding is needed for any business to sustain itself, the reimbursement rate a child care provider receives is important for sustainability and for determining what resources are available for quality improvements. As such, Iowa should develop a tiered reimbursement system targeting providers involved in the child care quality rating (QRS) system and/or the WAGE$ program.

If a tiered reimbursement system is instituted and higher subsidy reimbursement rates are offered to providers that meet specified quality requirements, financial supports must be available to help facilities serving subsidized children meet the requirements. Otherwise a tiered reimbursement system could further limit access for low-income families, especially in rural areas with fewer child care options. Grants should be available to help programs serving low-income children achieve and maintain the higher standards of the QRS, including providers obtaining training, credentials or degrees and increasing provider compensation appropriate to their education. Additionally, tiered reimbursements can provide an incentive for providers to improve the quality of their care and the resources to do so; however, the differential in rates must be substantial enough to provide a sufficient incentive to invest in quality improvements.

Advanced Education

Of all factors measured by the Consortium, education level was the strongest predictor of quality for family child care. Because 70 percent of family home child care providers do not have an early childhood credential or degree, Iowa should expand the enrollment capacity of T.E.A.C.H Early Childhood Iowa to provide scholarships for the Child Development Associate (CDA) credential, as well as two- and four-year college degrees in early childhood studies. With current funding levels, the program reaches only 2 percent of the family child care providers without CDAs or a higher degree who are currently working to attain a degree in early childhood education.

Being among the lowest-paid workers, few child care providers can afford to stay in the profession for an extended period of time. With evidence that child care providers who earn more remain in their programs and provide higher quality care,[64] Iowa should implement a program similar to North Carolina's WAGE$ program to increase the salaries of child care providers as they work toward two- and four-year college degrees in early childhood studies. In addition to raising wages, this type of program will also serve as an incentive to obtain advanced education, yielding more qualified providers.

Conclusion

Given the clear evidence of the importance of quality, affordable child care to the well-being of families, expanding child care assistance for all low-income, working families must be a priority. At the same time that we strive to ensure all needy families can access child care assistance in order to work, we must not lose sight of the fact that nearly half of Iowa's family child care is of poor quality and that the quality of infant care is generally low as well.

Parents need affordable, dependable, quality child care to secure and maintain successful employment and children need high-quality child care to grow into healthy, well developed, successful adults. For the future of Iowa's workforce and economic vitality, the state needs to expand child care assistance to more working families and must set quality standards that will ensure children receive quality care under the Child Care Assistance program. While such investments will require an increase in state expenditures, these investments produce a positive economic return.

Through the provision of more reliable and more structured care, child care subsidies increase the employment rate among working parents and reduce job loss or turnover, resulting in increased tax revenue for the state budget. The state would gain between $4.5 million and $6.8 million annually in additional state tax revenue from working parents as a result of raising the eligibility ceiling to 200 percent of poverty. Additional savings would likely result from a reduction in the state's share of TANF benefits, though this could not be quantified. In the long run, additional revenue gains would accrue on the order of $2.2 million annually because the greater availability of child care subsidies raises family incomes above the federal poverty and increases the employment rates, earnings and tax payments of the children in those families when they become adults. These revenue gains together will offset 22 percent to 30 percent of the $30.6 million annual cost of expanding eligibility.

Iowa's fiscal gains would be even more substantial if the child care assistance program were changed to emphasize quality child care. Research has shown that investments in quality pre-school for 3- or 4-

year-olds in Iowa would begin to pay for themselves within 12 years, and would eventually produce $1.97 in state revenue for every dollar invested. A simple illustration of these effects showed that funding quality for only half-day pre-school for all 3-year-olds in Iowa's Child Care Assistance program would produce annual net fiscal gains to the state (above the cost of the program) of $18.9 million. If such a program were instituted alongside the higher eligibility limits, the two changes together would be nearly self-supporting. If quality care was expanded to younger children in the subsidy program, the returns may be even greater and would likely yield a financial gain to the state budget.

As our state weathers a severe economic crisis, low-income working families need help paying for child care now more than ever to ensure they find and retain jobs. This type of support can be critical in helping adults remain actively engaged in the labor market and ultimately lead to a reduction in poverty rates. The current fiscal situation does not lessen the need for improving services to low-income working families who are more economically vulnerable due to the recession. Instead, it becomes more critical to improve outreach efforts to this vulnerable population and to use federal stimulus funds and state resources to expand child care assistance to Iowa's working families in an effort to prevent even more families from falling into poverty. By adopting measures to increase Child Care Assistance and raise the quality of care available to low-income families, Iowa can simultaneously improve the lives and outcomes of children, while also significantly strengthening our state and local economies.

Appendix: Method and Data Sources for Estimating Fiscal Effects

Effect of Existing Child Care Subsidies

To estimate the effects of increased employment rates for single-mother families on state tax revenues, we began by comparing the average family income of single-mother families where the mother is not employed with income where the mother is employed. These comparisons are made only for Iowa families who have a child under age 14 (because that is the age ceiling for subsidy eligibility) and whose family income is below the eligibility level of 145 percent of poverty. We find that the family income increases from an average of $8,200 to $14,200, a $6,000 increase, as a result of the mother being employed. This is a reasonable estimate given that the $11,150 in average earnings in the employed families would be offset by a loss of TANF and food stamp benefits.[††††] The figure of $14,200 is a little higher than the average income ($13,200) of single-parent families receiving Child Care Development Fund (CCDF) subsidies in 2006, based on a sample of administrative data.[65]

Here and throughout the fiscal analysis we have not applied any inflation factors to income. The income figures are from 2005 and 2006, and we compare those incomes with poverty thresholds for 2008. While it is likely that incomes rose over this period, we do not have a solid basis for estimating the size of the increase, and so have chosen the conservative assumption that incomes were unchanged between 2005-06 and 2008.

The state taxes paid by these single-mother families are estimated from the state tax model developed by the Institute on Taxation and Economic Policy (see Table A.1 below). Taxes paid would increase by about $448 per year, from the $469 in sales and excise taxes paid when not employed, to the $917 in income, sales and excise taxes paid when employed. (A single mother family with an income of $8,200 would not owe any Iowa income tax.) The total annual state tax revenue obtained from the approximately 5,270 single-mother families whose employment is attributable to child care subsidies would therefore be about $2.4 million.

Table A.1. Estimated state taxes paid before and after employment: Single-mother families in Iowa with at least one child under age 14

	Not employed	Employed	Increase
Income	$8,200	$14,200	$6,000
Tax rates (taxes as pecent of income)			
Income	0.0%	1.2%	
Sales and excise	5.7%	5.3%	
Total rate	5.7%	6.5%	
Total Taxes	$469	$917	$448

Some additional tax revenue can be attributed to the subsidy program from a small number of married couple families where employment of both parents was made possible by subsidies. Only about 9 percent of subsidy-receiving families in Iowa are two-parent families (about 750 families total).[66] Two-parent families with both parents working will be earning more than the eligibility ceiling, unless they have several children needing child care, are both earning at or near minimum wage, or are working less

[††††] The single parent not employed receives an estimated $8,200 in income, according to the census data, presumably from TANF benefits and food stamps. In 2008, a single mother in Iowa with two children ages 3 and 6, for example, would have been eligible for about $10,200 in benefits from these two programs combined. With $11,150 in earnings, the family's TANF and food stamp benefits would drop to about $5,400, for a net gain of about $6,300 ($11,150 in earnings less $4,800 loss in food stamp and TANF benefits; assuming the family also receives child care subsidies, federal and state tax credits, and public health insurance). The source for these calculations is the National Center for Children in Poverty, Family Resource Simulator, available at http://nccp.org/tools/frs/

than full-time. (Two full-time year-round jobs at minimum wage would produce annual income of about $29,000, while 145 percent of the poverty level for a family of four in 2008 was $30,740.) Since such a small number of families is potentially involved, we have not developed an estimate of additional revenue from more employment among married couple families.

Raising the Eligibility Ceiling

Effect on Income and Taxes for those Already Employed

If the eligibility ceiling were raised to 200 percent of poverty, many single mother families who are already employed would become eligible for subsidized child care. The average income of single-mother families in Iowa who have at least one child under 14, where the mother is employed, and where family income was between 145 and 200 percent of poverty, was $26,650 in 2005-06.[67] Increased taxes would be paid as a result of some of these families taking advantage of subsidized care because the Iowa child care tax credit would fall, applying only to the co-pay portion of child care costs rather than the full unsubsidized cost. Sales tax revenues would increase because the subsidy frees up income that will be spent in part on taxable items.

We base our estimates of tax revenues on two single-mother family types, both with two children, but differing by age of the children: (1) ages 3 and 6, with the 6-year-old requiring only part time care, and (2) ages 2 and 5, with both in full-time care. We believe the average family receiving subsidies falls within the range of the two families simulated. Families where the youngest is an infant would spend more on child care and hence experience a larger increase in disposable income, and larger increases in state taxes. Those with both children age 6 or older, and hence needing only part-time or after-school care, would spend less, and experience smaller increases in income and taxes. One-third of the children receiving subsidized care in Iowa are younger than 3, one-third are 6 or older. Ages 3 to 5 thus represent the middle third of the age distribution.

Table A.2 below shows the cost of child care with and without the subsidy for these two family types, the effect on the Federal and Iowa child tax credits, and the effect on the family's disposable income. Disposable income increases due to the savings in child care costs, and decreases due to the reduction in the child care credits. For the family with younger children, the net effect on disposable income is an increase of $8,889. For the family with children ages 3 and 6, the income gain is nearly $6,000. The increase in disposable income will translate into an increase in spending on taxable goods and services, producing an increase in Iowa sales tax estimated at 4.4 percent of income for families in this range, and an increase in state income tax equal to the reduction on the child care tax credit.

Table A.2. Income and Tax Calculations for Currently Employed Single Mothers with Two Children with Family Income Between 145 and 200 Percent of Poverty

	Children Ages 2 & 5			Children Ages 3 & 6		
	Eligible for subsidy			Eligible for subsidy		
	No	Yes	Change	No	Yes	Change
Family income	$26,650	$26,650		$26,650	$26,650	
Child care arrangement	Home	Center		Home	Center	
Annual child care cost	$12,756	$15,804		$9,864	$11,688	
Out-of-pocket cost/co-pay	$12,756	$2,225	$10,531	$9,864	$2,225	$7,639
Child care credit						
Federal: countable expense	$6,000	$2,225		$6,000	$2,225	
Federal credit percent	0.29	0.29		0.29	0.29	
Federal credit dollars	$1,740	$645	($1,095)	$1,740	$645	($1,095)
Iowa credit	$870	$323	($547)	$870	$323	($547)
Change in disposable income			$8,889			$5,997
Effect on state taxes						
Sales & Excise tax on additional disposable income			$394			$266
Additional Iowa income tax (reduction in credit)			$547			$547
Total			$942			$813

Note: Child care costs are annual costs on average in the State of Iowa for 2008, from NCCP Family Resource Simulator at http://www.nccp.org/tools/frs/index.php?p=1. Home based care costs assume an unregistered family child care home. Co-pay is based on current Iowa schedule. Federal child care credit allows a credit against a maximum of $3,000 per child. With an income of $25,000 to $27,000 the family could take a Federal credit of 29 percent of $3,000 for each child. The Iowa credit for families with $25,000 to $35,000 income is 50 percent of the federal. Sales and excise tax estimated at 4.44%, based on ITEP report, *Who Pays Iowa Taxes 2008.*

Effect on Taxes for Newly Employed Single Mothers

There is little research that directly measures the employment effects of raising eligibility limits, as opposed to the effects of having a subsidy or not, or the effects of lowering the cost of child care. Hence to estimate the effect of a higher eligibility ceiling on the employment rate of single mothers we must rely on related research, attempting to adjust for the smaller potential from expanded eligibility, as did the Urban Institute in their policy simulation for the state of Minnesota.[68] They used a change in the employment rate of 4 percent, one-half the rate used in their national simulations. We employ a range of 2 percent to 4 percent, which results in increased employment of 550 to 1400.

As we did earlier, we assume that single mothers who become employed because of the higher eligibility limit will have annual income of $26,600, the average for single mothers in Iowa with at least one child under 14 who have incomes in the new eligibility range (145 percent to 200 percent of poverty). Iowa income tax changes were derived from the Family Resource Simulator, while sales tax payments were based on average sales tax rates for families of each income level from the ITEP model.[69]

Table A.3. Estimated Additional Taxes per Newly Employed Single Mother

	Not employed	Employed	Gain
Income	$8,200	$26,600	$18,400
Income tax	$0	$329	
Sales & excise taxes	$469	$1,180	
Total taxes	$469	$1,509	$1,040

Effect on Taxes for Married Couples

There will be a gain in state tax revenue when the second spouse in a married couple family with young children obtains employment due to the availability of child care subsidies for families with income between 145 and 200 percent of poverty. The estimates of sales, excise and income tax revenue for such families are based on the average income of single-earner and dual-earner married-couple families in Iowa.[70] The taxes paid by the average family, as before, are based on the ITEP model (sales and excise taxes) and the Family Resource Simulator (income taxes), with the results shown below.[71]

Table A.4. Estimated state taxes paid before and after employment of secondary earner: Married-couple families in Iowa with at least one child under age 14

	Not employed	Employed	Gain
Income	$23,700	$40,300	$16,600
Child care co-pays		$3,100	
Net income	$23,700	$37,200	$13,500
State Taxes			
Sales and excise	$1,356	$1,458	102
Income taxes (child care credit included)	158	1,259	1,101
Total Taxes	1,514	2,717	$1,203

Long-Term Effects from Raising Children Out of Poverty

We base our estimates of the poverty-reducing effects on child care subsidies on the Urban Institute's study for the state of Minnesota.[72] They performed a policy simulation that involved raising the eligibility ceiling from 170 percent to 300 percent of poverty and guaranteeing availability of spaces. Although Iowa currently guarantees receipt of the subsidy to all who qualify, Minnesota does not, so that their simulated change was more significant than the change we propose in Iowa

The Minnesota report also relies on a definition of poverty different from the official standard we are employing. The major relevant differences are that, unlike the official U.S. measure, the poverty definition employed in Minnesota (referred to as the NAS or National Academy of Sciences measure[73]) includes income from food stamps and other cash or near-cash benefits in the measure of family resources, deducts out-of-pocket costs for child care and other work expenses, deducts state and federal taxes (net of any earned income tax credit), and includes adjustments for cost of living and health insurance in the poverty threshold.

This would have some impact on estimates of the poverty-reducing effects of child care subsidies in the case of families currently employed but relying on unsubsidized care. Some such families would be classified as not poor using the official measure, but poor under the NAS measure when the cost of child care is deducted from income. Such families could be raised out of poverty in the Minnesota model through the use of child care assistance, but would not count as raised out of poverty using the official measure, which classified them as non-poor to begin with. This would occur primarily in single-parent families with two or more pre-school children, with earnings between $25,000 and $30,000. Such families earn too much to qualify for TANF or Food Stamp benefits, but face child care costs in excess of $12,000 per year that, when deducted from earnings (under the NAS definition), put them below the poverty line. (These estimates assume that the poverty threshold is reduced in Iowa by 8 percent due to lower housing costs, and that families face $2,000 or more in out-of-pocket health care costs). At these earnings levels, if earnings is the only source of income they receive that is counted under the official poverty definition, the families would be classified as officially non-poor regardless of the availability of subsidized child care, but would still be under 200 percent of poverty and so eligible for subsidies under the higher eligibility ceiling.

It should be kept in mind that the poverty reduction we are assuming would occur in Iowa with expanded eligibility may be attributable in part to the different definition of poverty. However, we do not believe that the results from previous research on the long-term benefits of reducing poverty rates among children would have been significantly different under the NAS definition of poverty. In fact, if that research had relied on a better classification of poor and non-poor families it is quite likely that the differences between the two groups would have been more pronounced and the predicted benefits from reducing childhood poverty would have been greater.[‡‡‡‡] Applying those results to our estimates of the number of children lifted out of poverty (in part due to a different definition) if anything understates the long-term benefits to the state.

In this report we assumed that raising the income ceiling for child care assistance from 145 to 200 percent of poverty will reduce poverty in Iowa by one-third the amount found in the Minnesota study. In other words, we assume a reduction of 0.3 percentage points overall, 0.5 percentage points for children. The most recent results from the U.S. Census indicate an overall poverty rate of 11.0 percent in Iowa, and a child poverty rate of 13.7 percent.[74] There were 315,815 persons in poverty overall, 95,459 of them under 18. Therefore the estimated reductions in the poverty rate would raise about 8,600 persons out of poverty in Iowa, among them 3,500 children.

Earlier we estimated that 900 to 1,750 married couple families would be able to have the second spouse work if the eligibility ceiling were raised. The midpoint of that range is 1,325 families, and there would be about 2,915 children in those families (at an average of 2.2 per family). In the Minnesota study, about two-thirds of the poverty reduction occurred in such cases — the second spouse obtaining employment and lifting the family out of poverty. Thus the estimates of 3,500 children lifted out of poverty overall are roughly consistent with our earlier estimates if most of the married couple families with a new second earner moved out of poverty in the process. (Two-thirds of our 3,500 estimate is 2,300 children, who would represent 79 percent of the 2,915 children in our married couple families whose second spouse obtained a job).

The gains in income and tax revenue from adults who are lifted out of poverty as children accumulate, as over time more and more of the adult population consists of those who would have been poor as children were it not for their family receiving child care assistance. We assume that half of the 3,500 children lifted out of poverty at a point in time are under the age of 6, and these 1,750 children are distributed equally from ages 0 through 5, so that each year one-sixth or 292 “graduate” to school age. As those children become adults, each year another 292 persons are contributing $400 more to the state treasury than they otherwise would have.

The research by Duncan et al. on the benefits of poverty reduction for young children found that the higher earnings as adults would persist for at least 13 years.[75] The research also showed, however, that these earnings gains did not fall off with age during the first 13 years of labor force participation. It seems highly likely, therefore, that the earnings gains would persist; the study assumed an upper limit of 30 years (age 25 to age 55). Under this assumption, the revenue gain to the state would eventually reach $3.5 million each year (at the point where there are in any given year 30 cohorts of adults, ranging in age from 25 to 55, who benefited in childhood from the reduction in poverty).

One further adjustment to these results is called for. We cannot assume that all of the children who were lifted out of poverty by Iowa’s expanded eligibility for child care assistance will spend their adult

[‡‡‡‡] To the extent that this research relied on a measure that misclassified poor families as non-poor, the gains from moving children out of poverty would be understated since the comparison group (the non-poor) would have included many families who were in fact poor, lowering the average positive outcomes measured for those families. For similar reasons, to the extent that it misclassified some non-poor families as poor (because it failed to account for food stamps or the EITC), the negative outcomes for children raised in poor families would have been obscured to a degree, again producing an understated result

working lives in Iowa. We can estimate the fraction that will remain from census migration data. Of all adults who were age 25-55 at the time of the 2005-2007 American Community Surveys, who currently reside in the U.S. and who were born in the state of Iowa, 55 percent currently reside in Iowa. The fraction varies by age. For those who age 25-34 the percentage was 58, while for those now age 45-55 the percent was 52. It thus seems reasonable to assume that about half of those born in Iowa will remain through 30 years of adult working life, or to age 55. This assumption then does not count any benefits from those who stay only through age 30 or 35 or 40, for example, which is why it is conservative. On the other hand, it does not consider those born in Iowa who will not live to age 55 or who will migrate outside the U.S., though these numbers are presumably small. It also does not consider that some probably small proportion of those now in Iowa at later ages (45-55) only recently moved back to the state.

If half of the children lifted out of poverty remained in Iowa through age 55, the ultimate revenue gains estimated would be $1.8 million instead of $3.5 million. Other states will then benefit to some extent from Iowa's investments in child care, just as Iowa currently benefits from the higher eligibility ceilings in other states that have reduced the incidence of poverty among adult migrants from those states to Iowa.

The estimates of state savings in TANF benefits proceeded similarly. Iowa's federal matching rate for TANF benefits is 62.62 percent for FY2009. Thus 37.38 percent of the $1200 in TANF benefits saved per adult female lifted out of poverty as a child, or $449, represents a savings in state costs. We assume that half of the children lifted out of poverty each year are female, so that 146 women each year become adults receiving $449 less in TANF benefits. We also assume that the reduced benefits persist for 13 years, which is what Duncan et al found at a minimum. Once again, we assume that only half of the female children remain in Iowa at least through age 37.

While the state saves TANF funds, this does not automatically translate into a savings in taxpayer money because the federal funds for TANF are a block grant. However, any TANF savings can be put into the child care assistance program, hence reducing the state's commitment to funding the expansion of that program that we are modeling. They therefore do represent savings to the state.

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