



The Iowa Policy Project

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EXECUTIVE SUMMARY

Strengthening Child Care Assistance in Iowa *Benefits of Rewarding Work and Improving Child Development*

By Lily French and Peter S. Fisher

Policies that enable parents to work and promote children's healthy development benefit the parents, the children and the Iowa economy. They will also bring returns to the state budget. Iowa's Child Care Assistance (CCA) program aims to 1) help low-income working families become self-sufficient through access to affordable, quality child care; and 2) improve the quality of child care in Iowa.¹ Our report analyzes the state social and economic benefits from expanding this program to provide quality child care to more working families.

Financial assistance with child care costs helps low-income workers find and maintain employment, earn more, and rely less on welfare. Part of the cost of providing child care assistance is recouped through greater tax revenues and lesser demands on state spending. When families rise out of poverty, the state also benefits in the long term from additional tax revenue and reduced spending as that family's children grow up to become workers. We estimate Iowa can generate \$6.7 million to \$9 million in increased tax revenue and reduced spending as eligibility expands to families living below 200 percent of the federal poverty level. Even greater fiscal returns are attainable with investments in quality.

Iowa's income-eligibility limit and low enrollment rates have prevented the state from realizing the full range of economic and societal benefits possible from child care subsidies. In addition, the quality of child care in Iowa is not at an adequate level to produce the greatest fiscal returns, especially among children in subsidized care where the potential for returns is highest. Iowa's existing CCA program could be expanded to achieve greater employment effects for low-income parents as well as improved child development outcomes for low-income children. Our report details the growing need for and rising costs of child care in Iowa, reviews research on the employment effects of subsidies and benefits of quality child care, provides an overview of Iowa's current child care landscape, and estimates the state fiscal returns from child care subsidy improvements. We conclude with recommendations to reform child care assistance policy in Iowa.

Iowa has one of the highest percentages of employed parents of young children in the nation,² yet some of the most restrictive child care assistance policies. Iowa must come to grips with this discrepancy and proactively address the child care needs of working families. By making targeted improvements, Iowa can generate greater fiscal returns to its investment in the Child Care Assistance program.

Iowa's Low-Income Families Lack Access to Quality, Affordable Child Care

Increasing participation of women in the workforce, along with greater work requirements under welfare reform, lead a growing number of parents to seek care for their children from infancy to school-age.

Nationwide, almost 12 million children under age 5 spend an average of 36 hours per week in child care; an additional 10 million school-age children are in care while their parents work.³

Safe and reliable child care is essential for parents to be able to return to work after the birth of a child. Affordability and flexibility are also crucial to maintaining steady employment, particularly among low-income parents. When child care arrangements break down, workers lose pay and, potentially, their jobs. 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.

Employment problems related to child care are greatest at low incomes. According to the National Survey of Children's Health, 15 percent of families with income below 150 percent of the federal poverty level (FPL) experience child care related job problems (parents had to quit a job, pass up a job, or greatly change their job because of child care problems), compared to 9 percent of families with incomes above 150 percent of poverty.⁴

Working families struggle with the high cost of child care. Nationwide, child care costs are rising faster than inflation, making it hard for parents to keep up.⁵ This creates an extra strain on low-income families, who use a significantly higher share of their income to pay for child care than do upper-income families. In Iowa, the average annual cost of center-based infant care is \$7,360 — at 33 percent of the median income for single-mother families with children under 18, this fee is higher than the average tuition at Iowa's regent universities.⁶ Subsidies are designed to reduce these costs and bring regulated child care within financial reach; however they are not reaching all families struggling to pay for child care because of a low income-eligibility limit and low enrollment rates.

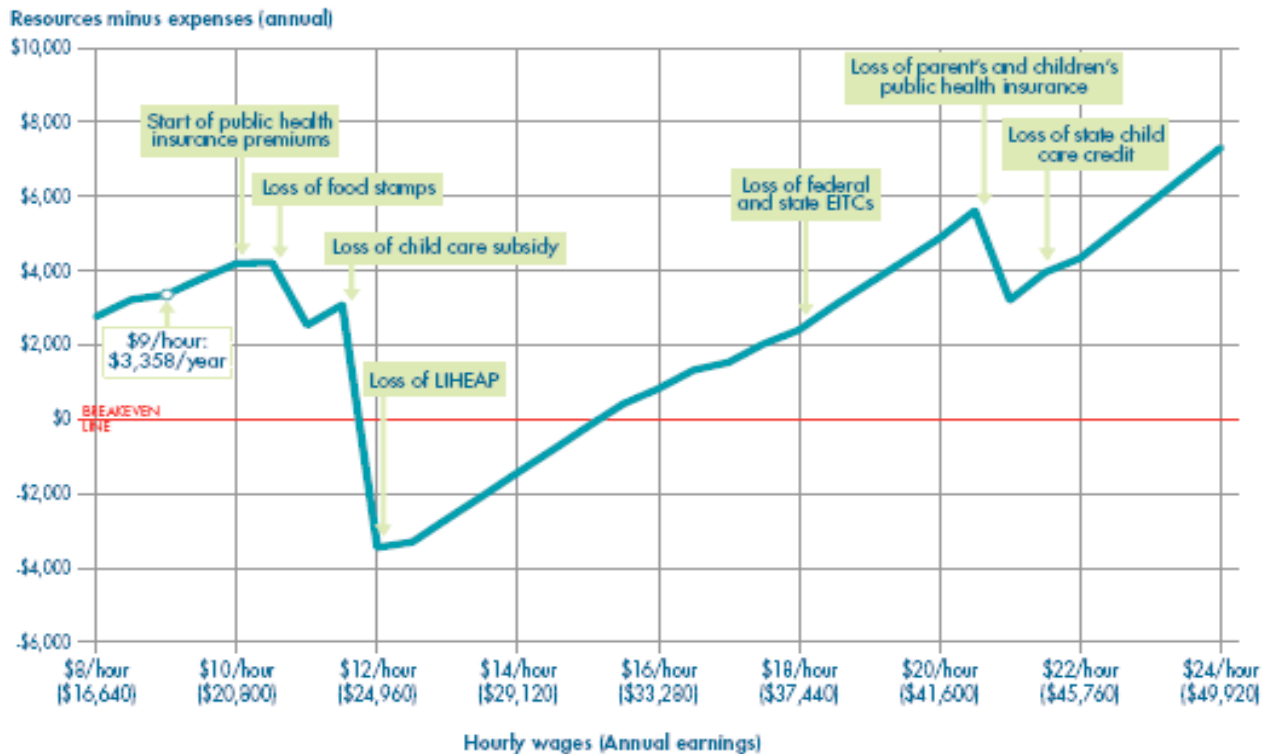
Iowa's CCA program subsidizes child care costs for families who work or attend school full time, are living below 145 percent of the FPL, and have children under the age of 14. While CCA is designed to make child care more affordable, Iowa's eligibility limit is among the lowest in the country. At 145 percent of the FPL (\$25,520 for a family of three), Iowa's income eligibility threshold is so restrictive that only three states have programs with lower income limits. This limit creates a disincentive to work, as parents can lose substantial child care benefits for even small increases in income before their wages are high enough to fully cover child care costs (see Figure 1, page 3). Additionally, less than one-third of eligible families are utilizing the program, in part because some child care providers will not accept delayed and low subsidy payments, currently based on 2004 market rates.⁷

The quality of child care available to low-income parents is also an area of concern. The quality of care in infant care centers and family child care homes in Iowa ranks low among four Midwestern states (e.g. relative to care in Kansas, Missouri and Nebraska). Researchers found only a small portion of care in Iowa to be good or better; most programs ranked as mediocre. Furthermore, the observed quality among preschool centers and registered family child care homes receiving subsidies is lower than for those programs that do not receive subsidies.⁸ Iowa's inferior child care quality has been linked to two factors:

■ **Oversight** — In 2008, Iowa's child care regulatory system was ranked 46th by the National Association of Child Care Resource and Referral Agencies, largely due to a lack of regulatory staff and because Iowa requires no pre-visits or training before a registered home provider cares for children. 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.⁹ Additionally, most children are in home-based child care settings not subject to regulatory oversight.¹⁰

■ **Pay & Training** — Among the four Midwestern states studied by the Midwest Child Care Consortium, Iowa caregivers earned the lowest salaries for full-time work (\$12,410 per year) and completed fewer training hours than providers in the other states.¹¹ Of more concern, providers receiving subsidies in Iowa have less education than providers who do not receive subsidies, which means that Iowa's most vulnerable children, due to poverty, are cared for by the least-educated providers.

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*.

Iowa, then, faces a fourfold problem: Subsidies are not getting low-income children into high-quality programs; current regulation is inadequate to improve programs that are being subsidized; child care workers are not being rewarded in the marketplace and even less so by the subsidy program due to outdated reimbursement rates; and too many working families are going without assistance. Without subsidies, hard-pressed families must either pay the full cost of care and forgo other basic necessities, or accept lower quality care, despite a risk to their children's development and their own job stability.

Child Care Subsidies Generate a Return to the State

When child care subsidies are available to support the employment of low-income parents and increase access to quality care, they can produce the intended benefits of the Child Care Assistance program. Research shows 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 than low-income mothers who lack access to child care assistance.¹² Research also shows investments in quality care and early childhood education lead to greater success in school, less need for special education, higher graduation rates, higher employment and earnings, better health outcomes, less welfare dependency, and lower crime rates. Quality child care produces these outcomes for all children, but the quality of care appears to have the greatest impacts on long-term child development for disadvantaged children.

An emphasis on high-quality child care should be viewed as a sound, even a high-yield, investment. All of the positive outcomes linked to high-quality child care in turn lead to increased government revenues and reduced government expenditures. 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 after children reach elementary school. In a landmark 2007 study, Robert Lynch demonstrated that investments in high-quality early childhood education for the most disadvantaged children produce a substantial payoff in the form of reduced costs for special education, criminal justice and child welfare, as well as increasing earnings and taxes. Lynch calculated that if Iowa paid all of the costs of such a program, the state would experience net budget savings in 12 years. By 2050, he estimates that every dollar spent on the program would return \$1.97 in increased taxes and budgetary savings, yielding a budget surplus of \$154 million.¹³

Child care subsidies increase the employment rate among working parents and reduce job loss or turnover. Increased employment, in turn, raises tax revenue. We estimate that 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 child care subsidy eligibility limit to 200 of the FPL. Additional savings would be likely from a reduction in the state’s share of TANF benefits. More revenue gains would accrue in the long term on the order of \$2.2 million annually because the greater availability of child care subsidies lifts families out of poverty, raising the long-term employment and earnings of the children in those families. Together, these revenue gains offset \$6.7 million to \$9 million of the annual cost of expanding eligibility to 200 FPL.

Figure 2. State Revenue Gained by Expanding Eligibility to 200 Percent of Poverty
(Millions of 2008 dollars)

	Low	High
Immediate Annual Revenue Gains		
From additional parents working		
Single mothers	\$0.6	\$1.5
Secondary earner in married couple families	\$1.1	\$2.1
From higher disposable income of families already employed but with unsubsidized child care	\$2.8	\$3.3
Total	\$4.5	\$6.8
Additional Future Revenue Gains		
Effects from raising children out of poverty		
Higher earnings as adults	\$1.8	\$1.8
Lower TANF benefits as adults	\$0.4	\$0.4
Total	\$2.2	\$2.2
Total Gains from Expanding Eligibility	\$6.7	\$9.0

Numbers may not add to total due to rounding

The state’s fiscal gains would be even larger if the Child Care Assistance program were changed to emphasize quality child care. For example, funding quality, 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, which would be enough revenue to cover the remaining cost of eligibility expansion. If quality child care was expanded to younger children in the subsidy program, the returns would be greater, likely yielding a financial gain to the state budget.

Policy Recommendations

To realize these gains, Iowa must expand the number of families 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 and a policy that currently discourages workforce advancement. Iowa can serve more working families, increase provider acceptance of subsidies, and improve the quality of subsidized care.

To improve employment effects of CCA by reaching more families, Iowa should:

- Raise income eligibility from 145 percent to 200 percent of the federal poverty level (FPL);
- Set reimbursement at least to the federally recommended 75th percentile of current market rates;
- Improve timeliness and efficiency of subsidy payments, exploring electronic benefit transfer; and
- Raise awareness of the CCA program among eligible families not in the welfare system.

To increase the benefits from providing quality child care to low-income children, Iowa should:

- Require licensure for providers caring for unrelated children under Iowa's CCA program, ensuring that 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;
- Expand the voluntary child care quality rating system (QRS), requiring participation from all providers receiving subsidies, and base reimbursement for providers on their quality rating;
- Implement a program, similar to North Carolina's WAGES program, to raise salaries of child care providers working toward two- and four-year college degrees in early childhood studies;
- Develop tiered reimbursements for providers involved in the QRS and/or the WAGES program;
- Expand scholarships for the Child Development Associate credential, and early childhood studies;
- 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.

Conclusion

For the future of Iowa's workforce and economic vitality, the state needs to expand child care assistance to more working families and set standards to ensure that children receive quality care under the Child Care Assistance program. 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.

In our severe economic crisis, low-income working families need help paying for child care now more than ever to find and retain jobs. Although budget constraints may make it difficult to expand assistance, this type of support can be critical in helping adults stay in the labor market. The fiscal situation does not lessen the need for improving services to low-income working families who are more economically vulnerable due to the current recession. Instead, it demands using federal stimulus funds and state resources to improve outreach efforts to this vulnerable population and expand child care assistance to prevent even more families from falling into poverty. Expanding child care assistance and raising the quality of care provided to low-income families can simultaneously improve children's lives and significantly strengthen our state and local economies.

¹ Lina Guzman and Suzanne Freed, *Developing Measures of Child Care as a Support to Employment and Self-Sufficiency*, paper prepared for the Child Care Bureau Roundtable on Performance Measures of Child Care and Employment (2006): 4.

² U.S. Census Bureau, *Percent of Children Under 6 Years Old with All Parents in the Labor Force*, 2003..

³ National Women's Law Center, Center for Law and Social Policy, and National Association for the Education of Young Children, *A Vision for the Reauthorization of Child Care* (2008), at www.nwlc.org/pdf/ChildCareReauthorizationVision.pdf

⁴ Laura Lippman, Lina Guzman, et al., Memo to Ivelisse Martinez-Beck, Child Care Bureau. March 24, 2006 cited in Guzman and Freed, *Developing Measures*.

⁵ National Association of Child Care Resource & Referral Agencies, *Parents and the High Price of Child Care: 2008 Update* (2008), at www.naccrra.org/docs/reports/price_report/Price_Report_2008.pdf

⁶ Board of Regents, State of Iowa, *Approval of 2007-08 Tuition & Fees* (December 11, 2006); Iowa Department of Education, *The Annual Condition of Iowa Community Colleges Report* (2007): 77.

⁷ Elaine Ditsler, Peter S. Fisher, and Kristi Lohmeier, *Bridging the Gaps in Iowa* (Iowa Policy Project, 2007).

⁸ Susan Hegland, Carla Peterson, Hyun-Joo Jeon, and Lesia Oesterreich, *Iowa Child Care Characteristics and Quality* (Midwest Child Care Research Consortium, 2003).

⁹ National Association for Regulatory Administration and National Child Care Information Center. *The 2005 Child Care Licensing Study: Final Report* (2006).

¹⁰ DHS presentation to Home-Based Child Care Committee, July 31, 2007 as cited in *Report to the Governor and the General Assembly Home-Based Child care Study Report and Recommendations for Revising the Regulatory System as Directed in Senate File 2432* (2008).

¹¹ Hegland et al., *Iowa Child Care Characteristics* (2003): 22.

¹² For a comprehensive review of research literature, see Stephanie A. Schaefer, J. Lee Kreader, and Ann M. Collins, *Parent Employment and the Use of Child Care Subsidies* (Child Care and Early Education Research Connections, 2006).

¹³ Robert G. Lynch, *Enriching Children, Enriching the Nation: Public Investment in High-Quality Prekindergarten* (Economic Policy Institute, 2007).

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The Iowa Policy Project

Formed in 2001, the Iowa Policy Project is a nonpartisan, nonprofit organization based in Mount Vernon, with its principal office at 20 E. Market Street, Iowa City, IA 52245.

The Iowa Policy Project promotes public policy that fosters economic opportunity while safeguarding the health and well-being of Iowa's people and the environment. By providing a foundation of fact-based, objective research and engaging the public in an informed discussion of policy alternatives, IPP advances effective, accountable and fair government.

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