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CHILD CARE HELP — WHEN IT’S NEEDED

No State Cost for First Year, As Congress Intended

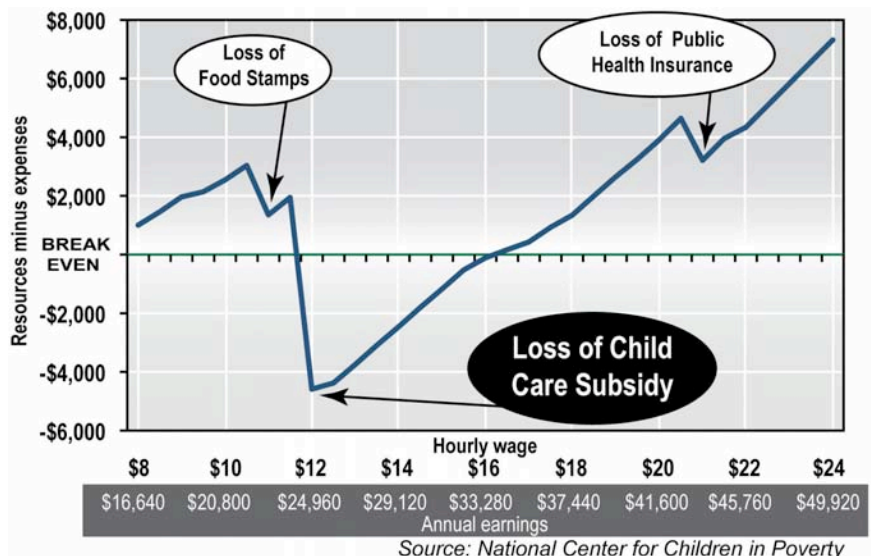
Iowa can help families barely out of poverty to keep covering child care expenses even as their earnings rise — if state officials choose to use federal stimulus funds made available for that purpose. For a full year, it wouldn’t cost Iowa anything to make the change to its Child Care Assistance (CCA) program.

Iowa received \$18.1 million in federal stimulus funds to “assist those most impacted by the recession through the provision of funds to expand [child care] services to additional children and families facing difficult economic circumstances.”¹ Federal legislation requires that these funds “must be used to supplement, not supplant State general revenue funds for child care assistance to low-income families.”

While the state appropriated about \$2.4 million for quality expansion and infant/toddler care for FY2010, the state is holding the remaining funds (about \$15.8 million) for potential FY2011 budget shortfalls in other programs. This contradicts the intent of the American Recovery and Reinvestment Act (ARRA) for states to supplement their child care services — not use stimulus to replace existing funds. While Iowa is maintaining state general revenue, and thus meeting the legal requirements of ARRA, it is supplanting federal funds by withdrawing standing TANF funds from the CCA budget, and filling the gap with stimulus dollars intended to expand, rather than just maintain, child care services.

Because funds must be obligated by Sept. 30, 2010, and spent by Sept. 30, 2011, Iowa can still use these funds as intended, to expand the child care program to serve more working families in these difficult economic times. Iowa currently serves too few working families; only three other states help families less.² This also offers the state an opportunity to improve the program by rewarding work, rather than discouraging it. As Figure 1 shows, under present rules, families can be worse off when they earn more. A single parent with two children, working full time in Des Moines, must earn over \$18 an hour for the family to regain the resources they lose when child care assistance ends, around \$12 an hour, which is well before a parent is earning enough to cover the full cost of care on their own.³ This child care benefit “cliff” can be eased at no cost to the state’s budget.

Figure 1. ‘Cliffs’ Illustrate Points Where Net Family Resources Drop as Earnings Increase
Single parent with two children, ages 2 and 6, Des Moines



Assisting with child care costs helps low-income workers find and maintain employment, earn more, and rely less on welfare — all important in a recession. But Iowa’s child care assistance program is broken. Iowa’s CCA program is one of the most restrictive in the country. Only three states have lower income eligibility limits, so working families in 46 other states get assistance that Iowa families do not.

Iowa can improve its CCA program to better reward work and serve more struggling families by:

- 1) adjusting copayments so that families pay a larger portion of the cost of care as their wages increase;
- 2) using the designated stimulus funds to expand CCA income eligibility from its current threshold of 145 percent to 200 percent of the Federal Poverty Level (FPL).

Expanding CCA would benefit working families with young children and return revenue to the state budget. With immediate fiscal returns of \$4.5 million to \$6.8 million from increased income and sales tax revenue and long-term fiscal gains of an additional \$2.2 million, the cost of child care assistance for families between 145-200 percent FPL will eventually be offset by \$6.7 million to 9 million a year.⁴

In the short term, increased tax revenue from parents working and earning more, as well as using more of their disposable income on taxable goods, combined with the stimulus money given to Iowa for expanding child care services are more than enough to cover one full year of the program expansion, if copayments are adjusted simultaneously. (See Table 1.)

Even after stimulus money is gone, the state would benefit from removing the present “cliff effect” as parents pay a larger portion of their child care fees as their earnings rise, reducing costs to the state.

Increase Eligibility to 200% (with adjusted co-pays)	\$21.6 million*
Immediate Annual Tax Revenue	- 6.8 million
Cost to the State	\$14.8 million
Existing ARRA CCDGB funds available	\$15.8 million**

* Legislative Services Agency

** Iowa Department of Human Services

Additionally, almost one-third of the CCA expansion costs will be returned to the state budget annually in increased tax revenue.

Long-term data shows that children who fall into poverty during a recession have poorer outcomes later in life, even after the recession.⁵ Specifically, children growing up in poverty achieve lower levels of education and are less likely to be gainfully employed over their lifetimes than those who avoided poverty. This research underscores the need to help families now and the importance of stimulus funds targeting expansions in the child care subsidy program. Expanding CCA to serve families up to 200 percent FPL would lift 8,600 Iowans from poverty, 3,500 of whom are children.⁶ This public investment would eventually save the state as much as \$2.2 million annually, when these children earn more and rely less on public assistance as adults.

Because of the recession, it is important to act now and Iowa has been given the resources to do so. Used effectively and for their intended purpose under ARRA, these funds can expand child care services to more families facing economic hardship and help put Iowa on the road to economic recovery.

¹ Child Care Bureau, Administration for Children and Families, *Program Instruction for ARRA Supplemental Child Care Development Fund Discretionary Award* (U.S. Department of Health and Human Services, 2009).

² Shelia Hansen, *Improving Child Care in Iowa: Looking Out for Our Youngest Residents* (Child and Family Policy Center, 2008).

³ Sarah Fass, Kinsey Alden Dinan, Nancy K. Cauthen and Jessica Purmort, *Making Work Pay for Iowa’s Families* (National Center for Children in Poverty, 2008).

⁴ Lily French and Peter S. Fisher, *Strengthening Child Care Assistance in Iowa* (Iowa Policy Project, 2009).

⁵ First Focus, *Turning Point: The Long Term Effects of Recession-Induced Child Poverty* (2009).

⁶ French and Fisher, *Strengthening Child Care Assistance in Iowa* (2009).