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Representative Wendy Horman
Senator Scott Grow
Joint Finance-Appropriations Committee (JFAC)
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Co-Chairs Grow and Horman:

I wanted to update you on a budget issue impacting the Idaho Child Care Program (ICCP) and the department's upcoming actions to ensure we continue to serve Idaho's neediest families while remaining within our appropriation as required by law.

ICCP is funded primarily by the Child Care and Development Block Grant, a federal grant that assists with child care programs for working families. The bulk of the funds must be used to pay for child care for eligible children; some funds may be used for other purposes, such as building capacity for more child care seats in Idaho's child care desert. Key policy levers that impact the budget include reimbursement rates, copayments, and eligibility thresholds.

<u>Reimbursement Rates</u>

The federal grant requires that agencies conduct an assessment of child care costs every three years using a statistically valid and reliable market rate survey that reflects variations in price by geographic area, provider type, and age of child. Child care reimbursement rates are then determined from the survey results. DHW's most recent survey was completed this summer. Unsurprisingly, local market rates have generally increased by 25% since the last survey three years ago.

Agencies use local market rates to determine benefit amounts for eligible children and may establish rates at or above the 50th percentile market rate. DHW's current reimbursement rates, in effect since October 2021, vary based on the age of the child with infant reimbursement being the highest, ranging from 85th to 75th percentile.[1] From 2015 to 2021, DHW's reimbursement rate was the 65th percentile for all age groups. The percentile is not addressed in state law or regulation and is instead set through the state plan submitted from DHW to the federal granting agency.

Copayments

The federal program allows agencies to require families share the costs for child care, typically through copayments on a sliding fee scale basis. DHW does require participating families to share in the cost of child care, and bases the copay amount on the family's income compared to the federal poverty level and whether the child is in part- or full-time care. In November 2020, DHW reduced monthly copays that eligible families pay, as follows:

Federal Poverty Level (FPL)	**Part** Time Copay **Prior** to 11/2020	**Part** Time Copay **After** 11/2020	**Full** Time Copay **Prior** to 11/2020	**Full** Time Copay **After** 11/2020
0%-100%	$20	$10	$40	$20
110%	$25	$10	$50	$25
120%	$50	$25	$100	$50
130% and greater	$75	$35	$150	$75

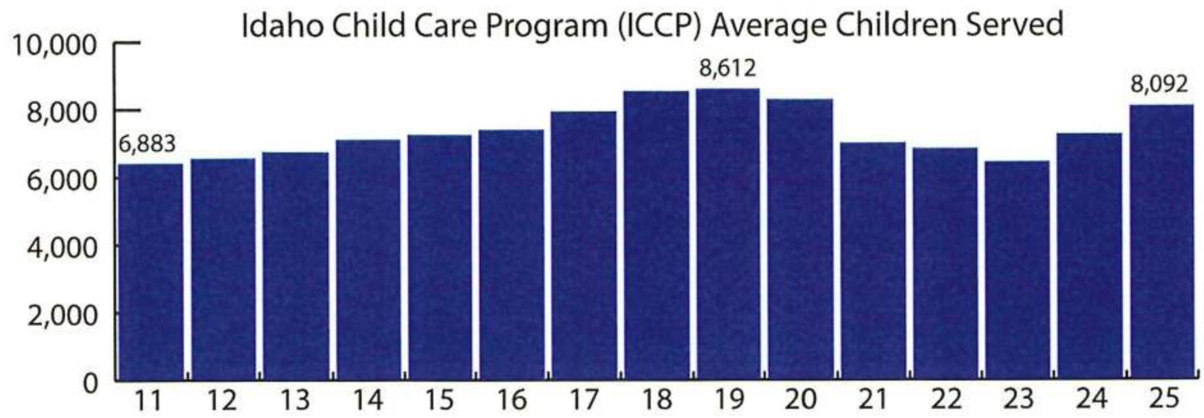
The change in copayment is also not addressed in state law or regulation and is instead set through the state plan submitted from DHW to the federal granting agency. Federal regulations now require the maximum copay be set at a level that does not exceed 7% of family income.

Enrollment and Eligibility Thresholds

In accordance with federal and state regulations, agencies establish eligibility criteria for ICCP, directly impacting enrollment.

In 2011, the family income threshold to qualify for ICCP was 130% of the federal poverty level. 6,418 participants were enrolled in the program in state fiscal year (SFY) 2011. Year-over-year enrollment increased slightly in subsequent years until SFY 2017 and SFY 2018, which saw steep enrollment increases. SFY 2020 was the first year in nine years that enrollment decreased, and that decreasing trend continued during the pandemic. Then, in SFY 2024 and so far in SFY 2025, enrollment increased sharply, as it had pre-pandemic.

[1] As an example, we currently reimburse $856 at the 80th percentile for toddlers, meaning 80% of providers charge $856 or less.



Meanwhile, DHW adjusted the family income eligibility threshold twice since 2011, once in May 2021 to 145% of the federal poverty level and then in 2023 to 175% of the federal poverty level. The change to 175% of the federal poverty level was made through administrative rule. At the time of the proposed change in eligibility, DHW staff anticipated that federal funding would be "sufficient to meet all proposed costs for the foreseeable future."[2] The proposed rule change was rejected by the House Health & Welfare committee, but approved by the Senate committee, and thus took effect under the rules of the Administrative Procedure Act at the time.[3]

Status

The combination of increased local market rates, paying at a higher percentile of local market rates, reduced copayments for families, and increased eligibility has created a forecasted budget deficit.

The department's historical practice has been, after the local market rate analysis, to implement the benefit rates on October 1 in concert with the beginning of the new federal fiscal year. Meanwhile, we currently have about 7,800 children in the program and forecast enrollment of 8,092 by July 2025. While we are not yet formally forecasting for 2026, given the trending increase in enrollment, we reasonably expect roughly 9,000 participants by July 2026 if we continue the program as currently administered. The result is a predicted a budget deficit as follows:

State Fiscal Year	Base T&B	Projected T&B	Deficit from Base	Deficit as Percentage of Base
2025	$52,766,742	$68,222,378	($15,455,636)	(29.3%)
2026	$56,277,742	$78,444,908	($22,167,166)	(39.4%)

The department is committed to being good stewards of taxpayer funds and operating within our budget and appropriation both now and in the future. Additionally, under state law, appropriations are fixed and agencies must live within their appropriation. DHW must act

[2] Vol. 22-10 Idaho Admin. Bull. 320 (October 5, 2022).

[3] Minutes of the House Health & Welfare Committee, February 8, 2023: https://legislature.idaho.gov/wp-content/uploads/sessioninfo/2023/standingcommittees/230208_hhea_0900AM-Minutes.pdf

now to course correct in both the current fiscal year and for the growing deficit projected for the out-years. Our goal is to live within our approved appropriation while minimizing the impact on current ICCP participants and ensuring there is no impact on prospective new ICCP enrollees who are foster families and other at-risk populations.

We can do this by taking the following steps:

- Recover administrative costs from ICCP-related contracts to minimize the number of children impacted;
- Delay implementation of the increased local market rates until July 1, 2025 to coincide with the new state fiscal year;
- Starting July 1, 2025, set payments at the 65th percentile of 2024 local market survey rates for all age groups (which restores DHW to pre-2021 payment rate percentiles);
- **Temporarily** pause new ICCP enrollment to ensure manageable caseload growth; and
- After unpausing enrollment, restore the family income eligibility threshold to 130% of the federal poverty level for new enrollees and implement a phase-out plan for existing enrollees who are above 130% as they recertify eligibility, as allowed under the legislatively-approved administrative rules.

These changes will balance the spend of this program with its appropriation, minimize the impact to existing ICCP participants, protect enrollment for at-risk populations, restore eligibility and enrollment to historical levels, and still result in an increase in reimbursement rates for providers for all age groups.[4]

We recognize that decisions like these are never easy, especially given the importance of access to affordable child care for both the workforce and for early childhood development. In fact, DHW organized a new Division of Early Learning and Development to seek opportunities to promote these very topics. We stand ready, willing, and able to work with the Legislature to explore both regulatory reforms and budgetary solutions to the child care issue.

In the spirit of continued cooperation together on child care budget ideas, there are federal funds in an accumulated one-time balance of underspent ICCP funds from previous years. While we are confirming the amount, program staff initially estimated this could be approximately $50 million. DHW does not yet have spending authority for these funds, but would encourage the Legislature to consider the potential of using these "foregone" funds to expand capacity of child care in all markets throughout the state or other investments that will benefit child care without creating an unsustainable cliff. It is important to reiterate that this accumulated balance is one-time in nature, and while federal funds for this grant generally grow over time, said growth has not been as rapid as market increases, causing a near-term cliff that would just be delayed if these funds are solely used to cover the projected deficits. Thus, a thoughtful, long-term view will be important.

[4] At the 65th percentile, two categories of part-time care would see a decrease. The department intends to maintain rates for these two categories at current rates to avoid reducing existing reimbursement rates.

We also recognize that ICCP is just one part of the commitment that the Legislature and Governor have made to child care in recent years and we want to applaud your efforts. The Workforce Development Council had grant funding to increase child care capacity statewide, adding 4,681 seats in targeted areas and industries. Further, the individual state tax deduction for dependent care was increased to $12,000 per taxable year, which helps defray the cost of child care for children age 12 and younger.

ICCP is a critical piece of a bigger picture, and we welcome a conversation on the appropriate combination of funding, organizational redesign, regulatory reforms, and all other ideas related to this important topic.

Sincerely,

Alex Adams, PharmD, MPH
Director