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Executive Summary

SB2900 directs the Illinois Department of Human Services (IDHS), in consultation with its Child Care and Development Advisory Council, to develop a comprehensive plan to revise provider reimbursement rates in its Child Care Assistance Program (CCAP). These rates have not changed in nearly five years despite substantial increases in program operating costs. The legislature recognized that the widening gap between the state and private market rate for child care significantly limits low-income families' access to quality child care. The stagnant reimbursement rates mean that:

- The cost of child care is borne by the underpaid staff. Most child care staff have not received salary increases and few have health insurance coverage. As a result, teacher turnover has increased and child care quality has suffered.
- Parents are asked to pay more than they can afford. Some parents already saddled with substantial co-pays are asked to pay more to cover the gap between the state rates and private pay rates, making quality child care unaffordable.
- The supply of quality child care available to low income families is diminishing. Many child care providers significantly limit or deny CCAP families access to their programs while others have closed classrooms or ceased operations altogether.

We recently closed our center in the Roseland neighborhood on Chicago's South Side. We were serving about 180 children, 90% of them receiving state assistance. The state rate was on average about \$18 less per day than we charge private pay clients at another center a mile away. With rising costs for staff, benefits, utilities and operations it didn't make sense to stay in business in a neighborhood where our income depended on the state's reimbursement rate.

Leon Walker
Child Development Institute, Chicago

Furthermore, under federal law, state reimbursement rates must be sufficient to assure low-income families in the CCAP equal access to comparable care available to higher-income families. States are presumed to provide equal access if their rates are set at the 75th percentile, i.e., sufficient to purchase 75% of the care in the child care marketplace. The latest IDHS biennial Market Rate Survey shows that Illinois' CCAP rates are far too low to assure equal access, purchasing less than 33% of the care (less than 1 in 3 slots) in most child care markets in the state and even less in others.

In furtherance of SB2900, IDHS has convened a committee comprised of IDHS and Department of Children and Family Services (DCFS) staff and members of the Child Care and Development Advisory Council. The committee and IDHS have carefully considered the most cost effective options for reforming the CCAP reimbursement rates to provide low-income families access to affordable quality child care comparable to the care available to other families. The following recommendations are based on objective market rate data and provide fairly apportioned increases to center and home providers in all parts of the state. IDHS' main recommendations are:

- Use the biennial Market Rate Survey to set the base child care provider reimbursement rate, and update it every two years as follows:
 - In Group 1A (Chicago metropolitan area): 50th percentile of market rate.
 - Group 1B (counties that include larger urban areas): 60th percentile of market rate.
 - Group 2 (rural counties): 75th percentile of market rate.

The different percentiles recognize that the demographic and economic characteristics of the county groupings vary widely, and apportion rate increases fairly.

- Revise age classifications to add a 2-year-old rate, reflecting child-to-teacher licensing ratios.
- Analyze Market Rate Survey data further to determine whether current county groupings are still appropriate.
- Require license-exempt centers to self-certify that they meet DCFS staff qualification, child-to-teacher ratio and group size standards in order to qualify for the new rates.
- Increase the license-exempt home daily rate to 65% of the age 3-to-5 rate for licensed homes in the lowest cost region of the state (\$11 per day) for providers who register with IDHS.
- Maintain current ratio of school age/preschool rate and collect data on school age market rates in the next Market Rate Survey.
- Make the special needs 20% add-on rate available to all children with disabilities.
- Establish financial incentives for high quality child care through a tiered reimbursement system that offers increased reimbursement for providers who demonstrate that they have achieved specific benchmarks of quality.

These reforms to the Child Care Assistance Program's provider reimbursement rates are essential to ensure that Illinois' low-income families have access to quality child care.

1. Introduction

Thousands of low-income parents in Illinois are able to work or attend school because the state's Child Care Assistance Program (CCAP) helps pay for their child care. Illinois reimburses providers who care for CCAP children based on a rate schedule that was last updated in July 2000 with a small cost of living increase. In the spring of 2004, the Illinois General Assembly passed Senate Bill 2900, which directs the Illinois Department of Human Services (IDHS) to develop, in consultation with its Advisory Council on Child Care and Development, a comprehensive plan to revise the system for reimbursing child care providers. In passing this legislation, the General Assembly recognized that while Illinois has been a national leader in providing low-income families with universal access to its CCAP, the program's stagnant provider reimbursement rates have failed to assure these children's continuing access to quality child care.

In passing SB2900, the General Assembly recognized that the inadequate state rate and the widening gap between the state and private market rate for child care has limited low-income families' access to quality child care in many ways. Child care providers around the state, including some that have operated for decades, have closed classrooms or ceased operations altogether. Other providers have significantly limited or denied CCAP children access to their programs. Because of the stagnant rates, most providers who do accept CCAP reimbursement have been unable to give their staff salary increases, and few staff members have health insurance coverage. As a result, teacher turnover has increased and the quality of child care has suffered. In some cases, providers have been forced to require parents already burdened with high CCAP parent co-payments to also pay the difference between the state and their standard private rates.

Moreover, as a result of the CCAP's inadequate child care provider reimbursement rates, Illinois is falling far short of its obligation under federal law to provide low-income children in the CCAP equal access to comparable care available to higher-income children. The federal benchmark for assuring equal access in a state's CCAP is setting rates high enough to purchase 3 out of 4 slots in the child care marketplace. To assess their performance, states are required to conduct a biennial survey of the market rate for child care in their states. According to the results of IDHS' latest biennial child care Market Rate Survey, the CCAP's rates are so low that in most child care markets they now purchase less than 1 in 3 slots and in some areas less than 1 in 5 slots.

If we're going to give children the quality care and education they need, we must make decent wages available. I haven't been able to give my staff raises in over five years, and I have forgone my own salary and put \$40,000 of my own money into the business. There's a limited pool of people who want to do this kind of work, and if we can't pay them a decent wage we won't be able to attract them. I think this is an economic development issue for our communities. When people choose to move to a community they look at the caliber of the schools and whether there is child care available. Right now directors and teachers are subsidizing care, and they can't sustain it for much longer. The crisis will be for our communities, and the state has to see that it's an investment worth making.

Vicki McMurray
Owner of centers in Perry and Franklin Counties

In furtherance of the requirements of SB2900, IDHS convened a committee comprised of IDHS and Department of Children and Family Services staff and members of the Child Care Advisory Council. The committee held community dialogues around the state to get input from providers on its recommendations. On October 19, 2004, the full Advisory Council endorsed the committee's recommendations included in this plan. The committee members and locations of the community dialogues are listed in Appendix A.

IDHS recommends the following comprehensive plan that provides:

1. Base reimbursement rates adequate to provide CCAP children equal access to quality child care.
2. A tiered reimbursement system that financially rewards child care providers that meet defined benchmarks of higher-quality care.
3. Revised age classifications based on data from the most current Market Rate Survey.
4. A special rate to child care providers who incur added costs in caring for children with disabilities.

Parents in my area are low income, and I would love to serve more families who qualify for the Child Care Assistance Program, but I just can't take more than two CCAP children. It's a simple matter of economics. The difference between my private pay rate, which barely covers my costs, and the state reimbursement rate is more than \$40 per week per child and it means I'm losing a lot of money. People here are low income and we don't have any place to go to balance our budgets.

Peggy West
Licensed group home provider in Marion County

2. Background

A. The Current System

Purpose

The Illinois Department of Human Services Bureau of Child Care and Development seeks to provide low-income Illinois families with multiple affordable options for quality child care and early education and offer children the opportunity to grow, learn and be cared for in safe, nurturing settings that are culturally and developmentally appropriate. Through the Child Care Assistance Program (CCAP), the Bureau provides child care assistance to more than 190,000 children whose parents work or attend school.

Funding

CCAP is funded with federal and state dollars. Federal funds from the Child Care and Development Fund (CCDF), the Temporary Assistance for Needy Families (TANF) Block Grant, and the Social Services Block Grant account for over half of program funding. Since welfare reform was instituted, annual child care expenditures have increased from \$262.8 million in FY97 to \$650.9 million in FY04. These increases have been entirely offset by decreased spending in the TANF cash assistance program.

Eligibility and co-payments

All Illinois families with household income below 50% of the current state median income qualify for the CCAP. All families are required to make a co-payment, which pays a portion of the provider reimbursement. The co-payment is assessed according to a sliding fee scale based on income, family size, number of children in care, and whether the care is full or part-time. Providers collect co-payments directly from families. In some cases, providers require parents to pay, in addition to their co-payment, the difference between the state reimbursement rate and the provider's private market rate.

How parents receive assistance

The child care services are provided through a certificate program and a site-administered contract system. Under the certificate program, eligibility is determined by the local Child Care Resource and Referral Agency. Parents can choose the child care provider who best fits their individual needs. Assistance is available for full or part-time care. Families can use licensed and legally license-exempt child care centers and family homes, including in-home and relative care. Under the site-administered contract system, families may apply for licensed care from a statewide network of nearly 200 contracted providers. Eligibility is determined on-site by the contracted provider.

How providers are reimbursed

The current child care provider reimbursement rate system has been in place for more than twenty years. Despite significant changes in the CCAP since 1997 when welfare reform was instituted, the rate structure has not been changed or updated.

The amount that the Child Care Assistance Program reimburses a provider for caring for a child is based on three variables – the type of provider, the age of the children, and the geographic area.

The federal government requires states to conduct a market rate survey of child care prices every two years. States are encouraged to use this survey data to establish *reimbursement rate ceilings* – the maximum amount of child care assistance that a state will pay in a particular geographic area. The rate is known as a “ceiling” because providers are not allowed to charge the government more than they charge their private pay clients. It is important to note that the Market Rate Survey collects data on the price charged to parents in a given market, not the providers’ cost of doing business. Illinois’ biennial Market Rate Survey is completed by the University of Illinois. Currently, Illinois does not tie its rates to the survey.

Illinois’ current rates vary based on:

1. The type of provider

Providers are divided into three categories:

- Licensed and license-exempt centers – Licensed centers meet child care standards established by the Illinois Department of Children and Family Services (DCFS). License-exempt centers include programs operated by school systems, park districts and faith-based organizations.
- Licensed homes – meet standards established by DCFS and may care for up to 12 unrelated children (depending on the age of the children).
- License-exempt homes – family, friends and neighbors who may care for no more than three children under age 12 unless all children are from the same household. This category also includes children cared for in their own homes.

2. The age of the child

Children are divided into three categories: under age 2-1/2, age 2-1/2-to-5, and age 6 and over.

However, universal preschool does not meet all the child care needs of the families in the CCAP program. It will only provide services for up to three hours per day for three and four-year-old children. Children whose parents work full time are typically in child care for eight to ten hours each day year round and many need care during nontraditional hours. Reforming the child care reimbursement rates is a critical first step toward improving a family's access to – and the quality of – early care and education.

3. The Problem: Illinois provider reimbursement rates are too low to assure access to affordable, quality child care.

A. Quality: Illinois child care provider reimbursement rates are too low to sustain quality child care.

Investing in high quality child care is an investment in children's future.

There is overwhelming evidence that the quality of children's child care experiences have a marked effect on their success in school and later in life. Economists have demonstrated that investing in high quality child care is wise public policy. The Federal Reserve Bank of Minneapolis calculated the rate of return on public investment in early childhood education projects, and found a 12% rate of return on public investment resulting in better working public schools, more educated workers and less crime.¹ Other studies have demonstrated that every \$1 invested in high quality early care and education saves \$7 in future costs associated with special education, welfare dependency and incarceration.²

How do we fill the gap between our costs and our income? We cut costs that we shouldn't. We defer maintenance and skimp on things like cleaning contracts. We use grants, fund raising and rely on our community and board for phenomenal contributions of time, talent and money. But the bottom line is that we have survived on the good graces of the staff. Teachers have gone without raises; administrative staff are doing the work of three or four people each. Our health insurance premiums have gone up 19% to 27% each year for the past five years. Because our rates don't go up, we keep our contribution the same. This means that the staff has to pick up the increased premiums and many are finding them unaffordable.

The simple facts are that doing business in an environment of rising costs without rising income just doesn't make sense. We are fortunate that we can find people to work in this field and to contribute as board members, but we are getting to a point where that just won't fill the gap any more. Staff are showing the signs of stress, including medical problems. My turnover rate is increasing. In order to make quality child care sustainable, we need to pay for it.

Laurie Walker
Skip-A-Long, not-for-profit child care centers, Quad Cities

The most significant elements of quality child care are low child to teacher ratios and the professional qualifications of staff. These are costly. Staff costs make up 80-90% of the total cost of care, and increasing salaries to retain staff with advanced professional qualifications has a major impact on providers' budgets.³ The low-income families participating in the state CCAP do not have access to quality child care when provider reimbursement rates are inadequate to support the cost of providing quality child care.

Since 1999, the only rate increase has been a 2.5% cost of living adjustment that took effect in July 2000. During the same six years:

- Inflation has raised the consumer price index by 14%.⁴
- The salaries of teachers in child care centers have risen 22%; assistant teachers' salaries have risen 18% (adjusted for inflation).⁵
- The employment cost index for workers in private industry has gone up by 20.3% (not including benefits).⁶
- Utility costs have increased. For example, the cost of piped gas has increased approximately 53%.⁷
- Liability insurance has increased between 25 and 35%.⁸
- In January 2005 the Illinois minimum wage will increase from \$5.50 to \$6.50.

When the state's child care reimbursement rates are insufficient to sustain quality, providers who offer quality care reduce the number of slots available to the low-income families in the Child Care Assistance Program or opt out of serving these families altogether. Providers who continue to serve these low-income families must either compromise their standards of quality or cut their losses by closing classrooms. Some providers simply can't stay afloat and close their doors altogether.

I'm about to close a classroom, even though I have children on a waiting list who could fill it in an instant. The problem is, I've lost three teachers in that classroom in the past year, and if I can't guarantee the stability in staff that the kids need, I won't provide the care. I just lost two wonderful teachers in the past week. One is going to a bakery and the other is going to a mental health facility. Both will make \$0.50 more per hour than I can pay them – and they will receive benefits. I'm just so sad for us and the children – I understand that these teachers have to meet their own families' needs, but look what we are losing, all because I couldn't afford to go to \$7.00 per hour.

Vicki McMurray
Owner of centers in Perry and Franklin Counties

Quality depends on people

At the heart of high quality care is the relationship between the teacher or caregiver and the child. Research demonstrates that children who are cared for and taught by consistent, sensitive, well trained and well-compensated staff experience more positive cognitive, social and emotional outcomes. Teachers play a pivotal role in the quality and outcomes of the program. Higher teacher education levels, as well as continuity of staff, result in higher quality care and produce better school readiness outcomes for children. Additional characteristics of a high quality child care setting include small group size, low child-to-teacher ratios, responsive caregiver-child relationships and developmentally appropriate activities.⁹

Low rates lead to lower quality

Because reimbursement rates are chronically low in Illinois, child care staff receive unjustly low wages. According to the state's most recent salary and staffing survey of licensed child care facilities:

- The average hourly wage for a full-time child care center early childhood teacher in a full-year program is \$9.01 per hour, which is \$18,741 per year.
- The average hourly wage for a full-time child care center early childhood assistant teacher in a full-year program is \$7.50 per hour, which is \$15,600 per year.
- 44% of family child care providers reported that their gross annual income was less than \$17,000.
- 45% of centers do not offer health insurance to their staff. Of the centers that do offer health insurance, many require staff to pay a large portion of their premiums, which means that many staff can't afford to participate.
- 43% of family child care providers in Illinois are uninsured.

We are committed to improving quality by hiring staff with four-year degrees but the problem is that at the wages we pay them, we can't keep them. Our turnover rate is 37% annually. Head Start is able to start teachers in Rockford at \$16 per hour – I can only pay them \$9. The public schools pay even more. We need a rate that enables us to pay staff a living wage so they will stay and provide the quality care our children deserve.

Staff turnover means that children and families feel insecure – this is especially true and important for infants, where bonding and attachment is so important. If the teacher leaves after six months, the child and his or her parents have to build up that trust and bond all over again, and that takes a long time to develop. Children don't understand why teachers leave and they act out. Parents feel scared. In the long run, this has an impact on the children's development.

Diane Stout
Circles of Learning Day Care Center, Rockford

When staff cannot afford to stay in a child care setting and move on to other employment, the children in their care suffer. The turnover rate for early childhood teachers in centers over the last two years was 38%; for assistant teachers it was 55%. Finding a new job outside of child care and low wages were the two most commonly cited reasons for staff turnover.¹⁰ To ensure that children are prepared for school by the time they enter kindergarten, the state must reimburse child care providers with rates that are adequate to pay for the costs of quality care.

Current system does not reward quality

In addition to being too low to sustain quality, the current reimbursement rate system does not distinguish between providers who may offer very different types of care. For example, under the current system, in a given geographic area, the following providers would all receive the same reimbursement rate, although the quality of care they provide – and their costs of doing business – are very different:

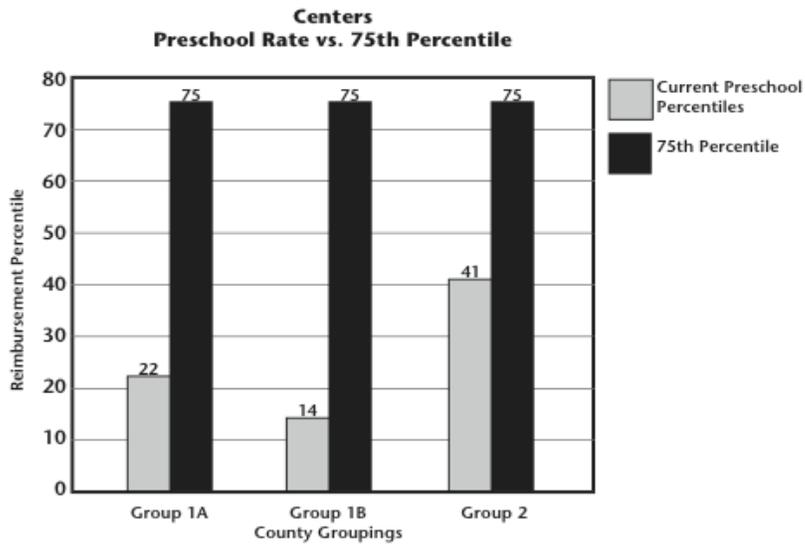
- A child care center that has achieved national accreditation, demonstrating that it meets nationally recognized quality benchmarks, including more highly qualified staff, lower child-to-teacher ratios, and developmentally appropriate activities,
- A center that nominally meets licensing standards, and
- A license-exempt center which does not have to meet DCFS standards for child-to-teacher ratios or space requirements.

B. Access: Illinois' child care provider reimbursement rates don't ensure equal access to comparable care

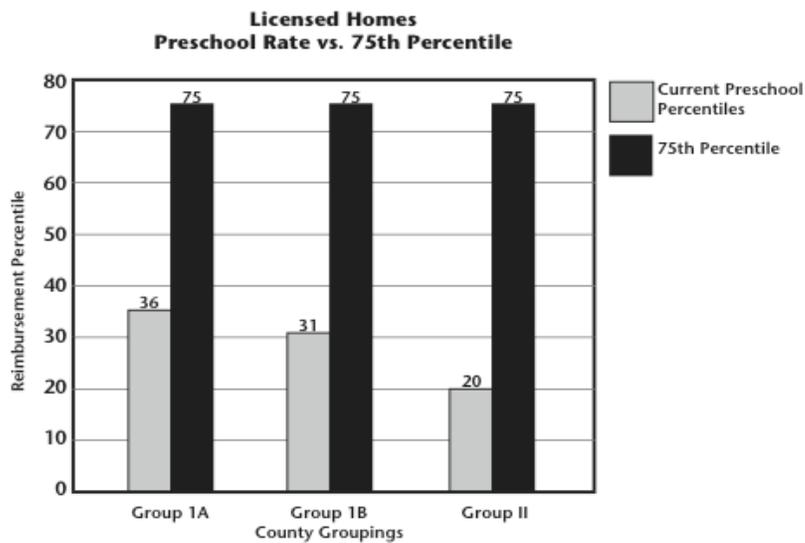
Federal law requires that Illinois' child care provider reimbursement rates must be sufficient to ensure that low-income children have equal access to child care comparable to that provided to children whose parents are not eligible to participate in the Child Care Assistance Program.¹¹ To assess whether their reimbursement rates are comparable to the private child care market, states must conduct a biennial Market Rate Survey of child care providers. States are presumed to satisfy the equal access federal mandate if their rates are set high enough to purchase 75% of the care in the child care marketplace, or 3 out of every 4 slots.

Illinois conducts and publishes a biennial Market Rate Survey of child care rates and, due to wide price variations, divides Illinois into three groups of counties. However, Illinois' provider reimbursement rates are set without reference to the Market Rate Survey results. Although the Market Rate Survey has reflected increases in the price of child care, Illinois' child care reimbursement rates have remained unchanged since 1999 except for a small cost of living adjustment in July 2000.

Illinois' reimbursement rates fall far short of purchasing 75% of the care in the child care marketplace and do not assure equal access to comparable child care, as illustrated by the chart below. The state rate for preschoolers cared for in child care centers in the state's most populous, highest cost counties (Group 1A) is currently sufficient to purchase only 22%, or approximately 1 out of 5 slots in the child care market. In the counties with a mix of urban centers and rural areas (Group 1B), the rate purchases only 14%, or approximately 1 in 7 slots in the child care market. In the rural counties (Group 2), the rate purchases 41%, or less than 1 in 2 slots in the child care market.¹²



The chart below illustrates that the state rate for preschoolers receiving care in licensed homes also falls far short of the 75th percentile and does not assure equal access to comparable care.



Source for both charts: IDHS 2004 Child Care Market Rate Survey completed by Dawn Ramsburg and Philip C. Garnier, University of Illinois. See Appendix B for charts showing infant-toddler percentiles.

C. Affordability: Illinois' low reimbursement rates put an unmanageable financial burden on parents

Illinois demands a high parent co-payment

Some states exempt families in poverty from making any child care co-payment. In Illinois, until 1997, such families paid only \$1 per month. Since 1997, however, Illinois has demanded some of the highest parent co-payments in the country. This places a heavy burden on the low-income families who qualify for the CCAP. For example, under the current Illinois CCAP co-pay scale, a single mother with two children in care living at the federal poverty level (\$15,610 for a family of three) must pay \$1,140 per year in child care co-payments. These families already spend a much higher percentage of their income on other life necessities – 70% of a working poor family's annual expenditures are for housing and food compared with the average American family's

44%.¹³ Illinois' high co-pay requirement means that families are also paying a higher percentage of their income on child care. For example, a working poor family at the upper limit of CCAP eligibility – \$29,020 per year for a family of three – must spend 13% of its gross annual income on its child care co-pay. In contrast, the average American family pays approximately 7% of its gross annual income for child care.¹⁴

Providers sometimes charge parents even more than their co-payment

When the gap between the state reimbursement rate and the private market rate widens, as it has in Illinois, providers sometimes turn to parents to make up the difference. In some cases, they require low-income parents who want to access quality child care to pay the difference between the state's rate and the rate for private pay parents (those who do not qualify for the CCAP), in addition to their hefty co-payment. This burden is unmanageable for the low-income families who qualify for the Child Care Assistance Program. They often are forced to choose lower quality care or to give up employment.

I am a single mom of two boys, ages 2 and 5. I had my children in a high quality program for two years but I had to take them out. My co-pay is \$277 per month, and they were asking me to pay an additional \$93 a week to make up for the difference between what the state pays and what their costs are. I only make \$11 per hour and that's a lot for me to pay.

I learned my lesson though. I put my boys in another center that is cheaper and closer to where I live. But it was terrible. I'm lucky because since my younger son just turned 3 my rates go down a little bit and I can go back to the first program only having to pay \$50 per week more than my co-pay. \$50 a week is still a lot for me. That will buy meals for three days. I'm working so I can't be with my kids and I have to find them the kind of educational support they need. There's no doubt in my mind that I'll make whatever sacrifice it takes.

Brook Sherman
A parent in Chicago

4. Principles for a New Rate System

Based on national research and professionally accepted best practices, IDHS recommends the following principles to guide development of a reformed child care reimbursement rate system:

A. The reimbursement rate structure should ensure access to a wide range of quality child care choices.

Making the right child care choice is a critical decision for parents because it has a major impact on their children's future. Federal law requires that low income families have the same access to quality child care as middle and upper income families. If the state's child care reimbursement rate is set too low, providers will not enroll children who are in the CCAP program, and low income families will not have equal access to quality child care.

B. State child care reimbursement rates should be developed according to a consistent methodology that is tied to the Market Rate Survey, but establishes appropriate adjustments to serve families in the geographic areas of greatest need.

To ensure equal access to quality child care by creating a system of child care payments that reflects the realities of the market, Illinois should tie its rates to the hard data contained in its biennial Market Rate Survey. However, in Illinois, particularly in low-income rural areas, the Market Rate Survey is not a perfect instrument. In some geographic areas, wage levels are too low to sustain quality child care, so solely relying on the Market Rate Survey will not produce rates sufficient to sustain quality. Nevertheless, the Market Rate Survey is currently the only hard data available on which to establish reimbursement rates. IDHS therefore proposes that the state tie the reimbursement rates to the Market Rate Survey, setting a different percentile for each geographic region to ensure that economic differences are taken into account in establishing and regularly increasing rates.

C. Rates should be updated every two years based on results of biennial Market Rate Surveys.

Indexing rates to the biennial Market Rate Surveys will assure that low-income children continue to have equal access to comparable child care in the future.

D. Child care reimbursement should be structured to support quality.

- **The base reimbursement rate should be adequate to support quality care statewide.**
- **A “tiered reimbursement” system should offer incentives to providers to further improve the quality of care through enhanced staff qualifications, training, improved learning environment, and other recognized benchmarks of quality.**

The state currently reimburses all providers of the same type in the same geographic region at the same rate, without regard to quality. Since higher quality care is the goal but is more expensive, this means that higher quality providers are often unable to serve low-income families. It also means that many providers who have a commitment to serve low-income children are forced to sacrifice quality because they cannot afford the extra cost.

More than thirty states have addressed this issue by adding a “tiered reimbursement” program where additional reimbursement funds are added to the base reimbursement rate for providers who demonstrate that they have attained measurable benchmarks of quality. Illinois should use tiered reimbursement to achieve three goals:

- Create more equal access to quality care.
- Create incentives for providers to attain higher levels of quality.
- Ensure accountability, by demonstrating that state funds are well spent on care that meets measurable benchmarks of quality.

5. Recommendations

The following recommended adjustments to the child care provider reimbursement rate structure are fairly apportioned to child care providers across the state, based on objective market data, and sufficient to provide low-income children access to quality care. Every effort has been made to limit the overall cost of the proposal without forsaking these goals. Following are eight recommendations for reform of the Illinois CCAP provider reimbursement system.

A. Set and regularly update the base child care provider reimbursement rate at the 50th percentile of market rate in Group 1A counties, the 60th percentile of market rate in Group 1B counties, and the 75th percentile of market rate in Group 2 counties.

IDHS recommends tying the base reimbursement rate to the biennial Market Rate Survey. This will provide a consistent methodology for setting rates that will be updated every two years to reflect the realities of the market. Ideally, the base rate would be set at the 75th percentile of market rate throughout the state. However, as a practical matter, an increase of this magnitude throughout the state would be cost prohibitive.

IDHS recommends setting the rate at different Market Rate Survey percentiles because the county groupings vary widely in demographic and economic character and the number of child care slots available. These adjustments will assure that needed rate increases are provided in every region of the state. In Group 1A there is a greater range in market rate because of the wider economic variations between counties. In addition the much larger child care market produces more slots. Therefore, IDHS recommends adjusting the reimbursement rate to the 50th percentile of market rate in Group 1A counties.

In the other regions, the market is much smaller and provides a less reliable benchmark for setting rates. In economically disadvantaged Group 2 counties, there is virtually no private pay market for child care, so the Market Rate Survey is skewed because of the high percentage of providers who must accept the state rate. Providers report that they are struggling to stay open at these rates, which do not cover their costs and do not allow them to compensate staff fairly. In addition, because these communities are predominantly low income, there are few opportunities for providers to raise funds or receive support from businesses or individuals. Because the Market Rate Survey is skewed in these communities, the 75th percentile is recommended as the base rate for Group 2 counties.

Counties in Group 1B fall in the middle. Similar to Group 1A there is a wide variance within the counties in the group, but similar to Group 2 there is an insufficient private pay market to support quality care. Therefore, the 60th percentile is recommended as the base rate for Group 1B counties.

A chart showing the proposed new base rates is in Appendix D.

In addition, IDHS recommends that once the rates reach the recommended levels, providers will not be allowed to charge families more than their co-pay. Since the proposed rates would be sufficient to support quality child care, it would not be appropriate for parents to pay more than their co-pay, which represents the maximum amount they can reasonably afford to pay for child care.

B. Revise Age Classifications to reflect the true operation of the child care market by using the groupings “under age 2”, “age 2”, “ages 3-to-5” and school age.

Existing reimbursement rates are based on the following age classifications: under age 2-1/2 (infant-toddler), over age 2-1/2 (preschool), and school age. The Market Rate Survey findings for day care centers clearly reflect a distinct market for 2-year-olds, and strongly support a revision in the age classifications to ages under 2, 2, and 3-to-5. This market difference corresponds to differences in licensing requirements for child-to-teacher ratios and other regulations related to children’s health and safety.

The cost of infant care is documented to be much higher than the cost of caring for older children. The state has addressed this in the past with an Infant-Toddler Add-On rate for providers who apply for it, which requires significant paperwork. In Group 1B and 2 counties, the existing Infant-Toddler Add-On is higher than the new market-rate-survey-based rates for under-2-year-olds. Rather than applying this add-on rate only to providers who apply, the current Infant-Toddler Add-On rate would become the base rate for all providers who care for under-2-year-olds in Group 1B and 2 counties. This would stay the rate until the biannually updated rates that are tied to the Market Rate Survey exceed this current rate, at which time the rates would increase to the market-rate-survey-based rates.

C. Maintain the current county groupings while further data analysis is undertaken.

IDHS does not have a sufficient basis to recommend changes in the county groupings but strongly recommends that the 2004 Market Rate Survey data be analyzed further to determine whether the current county groupings continue to be appropriate.

D. Require license-exempt centers to self-certify that they meet requirements for personnel in order to receive the same rate as licensed centers. For license-exempt centers that do not meet these requirements, set the rate at 75% of the rate for licensed centers in their geographic areas.

Licensed and license-exempt centers are now reimbursed at the same base rate. The licensing standards that pertain to personnel, including those applicable to staff qualifications, group size, and child-to-teacher ratios, are essential to quality. Therefore, the higher base rates recommended in this report should be available only to those license-exempt centers that self-certify compliance with the licensing standards for personnel. Other license-exempt centers should receive 75% of the licensed center rate, or their current rate, whichever is higher.

E. Set the license-exempt home rate for registered providers at 65% of the age 3-to-5 rate for licensed homes in the lowest cost region of the state.

License-exempt home providers are family, friends and neighbors who care for children in their own or the child's home. Such providers can legally care for up to three children under the age of 12, including their own, without a license. They are not subject to licensing inspections but must self-certify their compliance with state health and safety standards. Many families prefer this type of care because of the relationship between the child and the provider and because it is typically more flexible to meet parents' need to work during nontraditional hours. More than 85,000 Illinois children are cared for by providers who receive reimbursement for this type of care through the Child Care Assistance Program.

IDHS recommends that a new license-exempt home rate be established for providers who become registered. To register, a license-exempt home provider would have to verify his or her identity with photo identification and a Social Security Number. All license-exempt homes currently submit to a check through the Child Abuse and Neglect Tracking System (CANTS), and this requirement will continue. The license-exempt home rate should be high enough to adequately support these providers, recognize the higher cost of providing licensed care, and retain the financial incentive for providers to become licensed. The rate for registered license-exempt home providers should be set at 65% of the age 3-to-5 rate for licensed homes in the lowest cost region of the state. Registered license-exempt home providers will be able to participate in the tiered reimbursement system and receive a higher reimbursement rate by attending training.

F. Maintain Current School Age Rates.

Rates for school age care are currently 50% of the full-time preschool rate in Group 1A counties and approximately 60% of the full-time preschool rate in Group 1B and 2 counties. The biennial Market Rate Survey does not collect data on this rate so it is not possible to evaluate whether it is supported by actual conditions in the market. In the absence of market data, IDHS recommends that we maintain the status quo by setting school age rates at 50% of the full-time age 3-to-5 rate in Group 1A counties and 60% of the full-time age 3-to-5 rate in Group 1B and 2 counties. IDHS further recommends that the next Market Rate Survey collect data on school age market rates.

School age rates could then be adjusted in the future as warranted by the Market Rate Survey findings. Using this approach, school age rates will increase proportionately with other base rates. The proposed new school age rates are in Appendix D.

G. Apply the Special Needs Add-on rate to all types of care.

Currently, the state offers a 20% add-on to the rate paid to site-administered centers for CCAP children who have an identified special need. Documentation such as an Individualized Family Service Plan (IFSP) or an Individual Education Plan (IEP) is necessary to receive the enhanced rate. Since additional expenses are incurred when caring for a child with special needs in any setting, IDHS recommends that this add-on rate apply to all CCAP children who have an IFSP or IEP. This will increase access to quality child care for children with disabilities so that they can be cared for in inclusive settings.

H. Establish financial incentives for high quality child care through the proposed Quality Counts tiered reimbursement system.

Although research demonstrates that children who experience high quality child care succeed in school and later in life, Illinois' current base reimbursement rate system reimburses all providers at the same level regardless of the level of quality. Tiered reimbursement programs implemented in other states demonstrate that increasing reimbursement for providers who meet specific benchmarks of quality is an effective way to increase the number of providers who offer higher quality child care.

Concurrent with this plan to revise the base child care reimbursement rates, a work group of the IDHS Child Care and Development Advisory Council has developed a proposal for Quality Counts – a system of financial incentives for reaching measurable benchmarks of quality. These recommendations to revise the base child care reimbursement rate assume that the tiered rate system will be adopted, enabling the state to provide incentives for even higher quality care, and raising the Market Rate Survey percentile at which higher quality care providers are compensated.

Illinois Quality Counts follows a four-star model for licensed centers and licensed family homes. Specific requirements are tailored to each type of provider. The program requirements for license-exempt family homes follow a two-level model with an emphasis on training and support. At each star level for centers and licensed homes, the system measures quality in four categories:

- Learning environment – assessed using nationally recognized Environmental Rating Scales (ERS) that provide a scoring system to evaluate elements of a quality learning environment and provides a tool for improvement. The program and ERS also encourage progress toward accreditation, alignment with Illinois Early Learning Standards, and developmental screening of children.
- Regulatory compliance.
- Program design and management.
- Provider qualifications and training.

Licensed providers will receive a 5% increase over the base rate for each star level attained, up to 20%. License-exempt homes will receive a 10% increase at star level one and a 20% increase at star level two.

The Child Care and Development Advisory Council will review the requirements for license-exempt centers to participate in Quality Counts following implementation of the new requirements for self-certification in order to receive the new base rates.

The draft report describing the Quality Counts tiered reimbursement program is available from IDHS. (see Appendix E.)

I. Use the 2006 Market Rate Survey to gather additional data and further reform the rates if data indicates adjustments are warranted.

The current Market Rate Survey does not adequately break out data for school age care or for licensed group family child care homes, a category which allows for additional children in care. Providers who participated in community dialogues indicated their concerns that the reforms proposed in this plan do not adequately address these categories of care. IDHS was concerned that there was inadequate data on which to base additional reforms, and recommends that this data be collected in the next Market Rate Survey. IDHS and the Child Care and Development Advisory Council should analyze this data and make recommendations to address potential changes in reimbursement rates for school age care and licensed group home care.

6. Phase-In Plan

Illinois has been a leader in creating a child care system that supports working families and contributes to the healthy development of children. Illinois was the first state to create universal access to child care programs for all low income working families. In an effort to serve as many families as possible, access to care has taken top priority. As we continue to focus our efforts on universal preschool and early care and education, the support for quality child care programs needs consideration.

IDHS staff and the Child Care Advisory Council identified five major goals in its October 2000 five-year strategic plan.

- Fully implement a child care subsidy system that enables all Illinois families to access quality care.
- Support quality child care through a system of adequate base rates and financial incentives for implementing progressively higher quality standards.
- Support development of a child care work force dedicated to providing the highest quality care.
- Encourage collaboration and blending of funds to provide the best possible early care and education system.
- Implement planning and management tools that increase the system's responsiveness to providers and families and accountability to the public.

In keeping with this plan, Governor Blagojevich has demonstrated his commitment by:

- Signing HB 294 in 2004, which increases family income eligibility each year, which allowed an additional 11,000 children to be served.
- Increasing funding for child care by \$50 million in FY2004.
- Increasing funding for child care by \$27.9 million in FY2005.

We are committed to quality programs designed to assist families in attaining and sustaining self-sufficiency and in providing Illinois families and children a range of quality care options. IDHS is also committed to the care options being geographically accessible, developmentally appropriate and culturally sensitive.

The cost of these recommendations could be as much as \$92 million annually, subject to the percentage of market rates, timing and the degree of incentives adopted. Due to current fiscal constraints, a phased in strategy, implemented in accordance with budget conditions, would be necessary.

*Appendix A. Rates Committee Members, IDHS Child Care and Development
Advisory Council Members and List of Community Dialogues*

Gwendolyn Kenner-Johnson, Associate Director of the Office of Family Support Services, presented the recommendations from the Rates Committee to the Child Care and Development Advisory Council for their review, input and approval.

Child Care Rates Committee Members

Martina Casey	Local 880/SEIU	Chicago
Mary Jane Chainski	Ounce of Prevention	Chicago
Micki Chulick	DeKalb 4-C Resource & Referral	DeKalb
Marsha Engquist	Lake Shore Schools	Chicago
Ricardo Estrada	Erie Neighborhood House	Chicago
Daniel Fitzgerald	Illinois Department of Children & Family Services	Chicago
Iris Kaitschuck	Illinois Association for Family Child Care	Chicago
Judith Walker Kendrick	Coalition of Site Administered Child Care Programs	Chicago
Dan Lesser	Sargent Shriver National Center on Poverty Law	Chicago
Sue Logan	PSO/Illinois Child Care Association	Forest Park
Lori Longueville	John Logan College	Carterville
Kate Mahar	Action for Children	Chicago
Janet Maruna	Illinois Network of Child Care Resource & Referral Agencies	Bloomington
Faye McCray	Illinois Association for Family Child Care	Chicago
Gail Nelson	Carole Robertson Center	Chicago
Sessy Nyman	Action for Children	Chicago
Diane Stout	Circles of Learning Day Care Center	Rockford
Christi Turner	City Colleges of Chicago	Chicago
Laurel Walker	Skip-A-Long Child Development Services	Moline

IDHS and DCFS staff who participated on the rate committee

Craig Bailey	Illinois Department of Child & Family Services	Springfield
Keith Baker	IDHS Budget Office	Springfield
Sujata Bhat	Illinois Department of Child & Family Services	Chicago
Megan Fitzgerald	IDHS Child Care & Development	Chicago
Holly Knicker	IDHS Child Care & Development	Chicago
Tricia Owsley	IDHS Budget Office	Springfield
Barb Payne	IDHS Office of Employment & Training	Springfield
Linda Saterfield	IDHS Child Care & Development	Springfield

Advisory Council Members

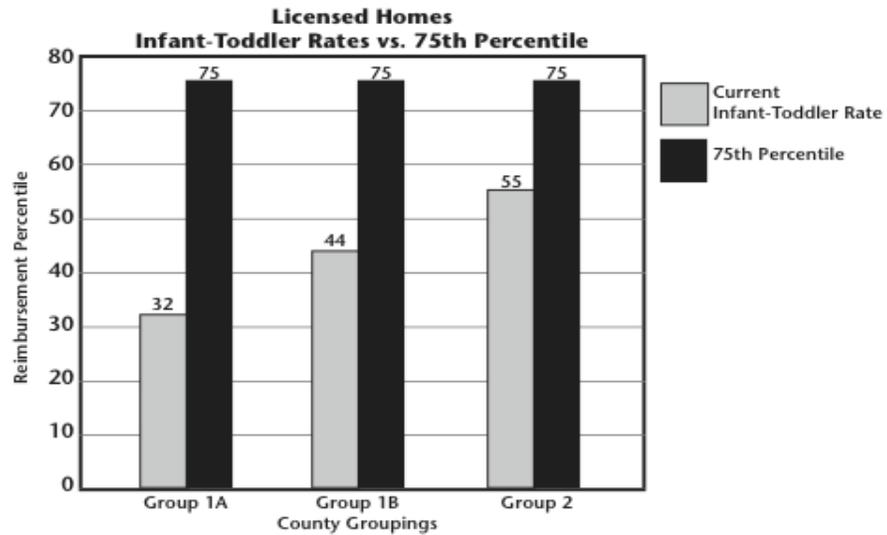
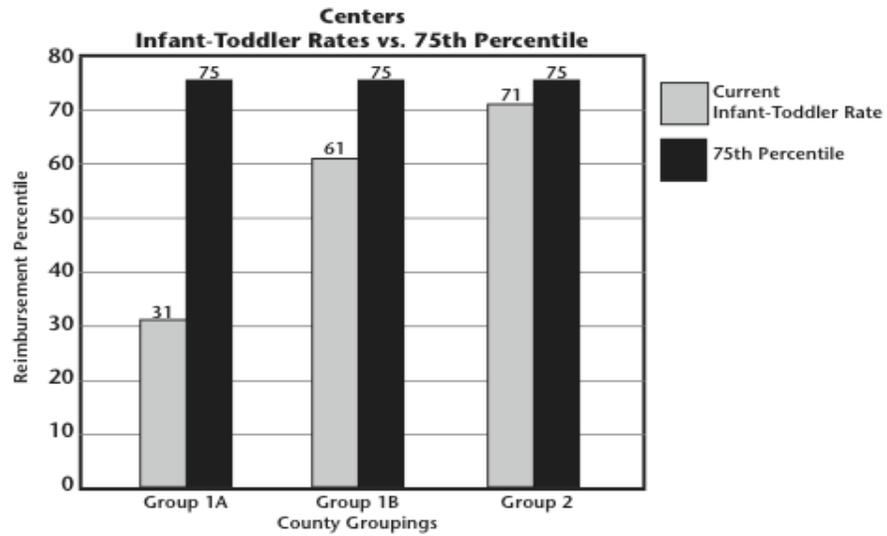
Brenda Arksey	Chinese American Service League	Chicago
Rosetta Biggerstaff	WADI Head Start	Enfield
Barbara Bowman	Early Childhood Education	Chicago
Mary Ellen Caron	Chicago Youth Services	Chicago
Martina Casey	Local 880/SEIU	Chicago
Mischelle Causey- Drake	Hull House	Chicago
Mary Jane Chainski	Ounce of Prevention	Chicago
Ellen Chavez	Casa Central	Chicago
Micki Chulick	DeKalb 4-C Resource & Referral	DeKalb
Nancy Cleveland	Human Development Center	Harvey
Jan Deissler	Child Care Connection, ICC	Peoria
Vera Durbin	Fayette County Child Care Corporation	Vandalia
Beverly English	IDHS - Bureau of Community Health Nursing	Springfield
Marsha Engquist	Lake Shore Schools	Chicago
Ricardo Estrada	Erie Neighborhood House	Chicago
Elizabeth Evans	Illinois Facilities Fund	Chicago
Jana Fleming	City Colleges of Chicago	Chicago
Laura Dean Friedrich	ChildServ	Chicago
Kathy Fudge-White	Catholic Charities	Joliet
Phyllis Glink	The Irving Harris Foundation	Chicago
Janet Gully	IDHS- Bureau of Early Intervention	Springfield
Kay Henderson	Illinois State Board of Education	Springfield
Michael Holmes	Illinois Department of Children & Family Services	Chicago
Iris Kaitschuck	Illinois Association for Family Child Care	Glenview
Dr. Sokoni Karanja	Centers for New Horizons	Chicago
Judith Walker Kendrick	Coalition of Site Administered Child Care Programs	Chicago
Dan Lesser	Sargent Shriver National Center on Poverty Law	Chicago
Sue Logan	PSO/Illinois Child Care Association	Forest Park
Lori Longueville	John Logan College	Carterville
Janet Maruna	Illinois Network of Child Care Resource & Referral Agencies	Bloomington
Faye McCray	Illinois Association for Family Child Care	Chicago
Angie Messmer	Southern Seven Health Department	Ullin
Gail Nelson	Carole Robertson Center	Chicago
Sean Noble	Voices for Illinois Children	Chicago
Sessy Nyman	Action for Children	Chicago

Margarita Paredes	Mental Health Consultant	Oak Park
Kathie Raiborn	Rogy's Learning Place Centers	East Peoria
John Roope	Chaddock Child & Family Center	Quincy
Christine Ryan	Community Partnerships Program	Chicago
Nancy Shier	KidsPEPP	Chicago
Ruby Smith	The Terry Group	Chicago
Jan Stepto Millett	Centers for New Horizons	Chicago
Marge Stillwell	Illinois Head Start Association	Mahomet
Diane Stout	Circles of Learning Day Care Center	Rockford
Laurel Walker	Skip-A-Long Child Development Services	Moline
Margie Wallen	Ounce of Prevention	Chicago
Maria Whelan	Action for Children	Chicago
Benna Wilde	Prince Charitable Trusts	Chicago

Community Dialogues to discuss the rates, locations, and dates

Belvidere	Zion Lutheran Church	September 14, 2004
DeKalb	Community Coordinated Child Care (4-C)	September 14 and 17, 2004
Decatur	Independence Point	September 28, 2004
Effingham	Kluthe Center, Lake Land College	September 29, 2004
Carterville	John A. Logan College	October 7, 2004
Glen Ellyn	YWCA CCR&R	October 26, 2004
Chicago	Erie Neighborhood House	October 28, 2004
Chicago	Ada S. McKinley Adult Center	November 4, 2004

Appendix B. Charts Comparing Current Infant-Toddler Rates to 75th Percentile



Source for both charts: IDHS 2004 Child Care Market Rate Survey completed by Dawn Ramsburg and Philip C. Garnier, University of Illinois.

*Appendix C. Current State of Illinois Department of Human Services
Base Reimbursement Rates, Effective July 1, 2000*

The rates listed below are the maximum rates that the Department will pay per day.

- For care provided less than 5 hours per day, use the part-day or school age-day rate.
- For care provided from 5 through 12 hours per day, use the full-day rate.

GROUP IA COUNTIES

Cook • DuPage • Kane • Kendall • Lake • McHenry

	Under 2-1/2		2-1/2 and Older		
	Full-Day	Part-Day	Full-Day	Part-Day	School Age-Day
Licensed and Licensed Exempt Day Care Center 760, 761	\$33.77	\$16.89	\$24.34	\$12.17	\$12.17
Licensed Day Care Home or Licensed Group Day Care Home 762, 763	\$21.53	\$10.77	\$20.50	\$10.25	N/A

GROUP IB COUNTIES

Boone • Champaign • DeKalb • Kankakee • Madison • McLean • Monroe • Ogle • Peoria • Rock
Island • Sangamon • St. Clair • Tazewell • Whiteside • Will • Winnebago • Woodford

	Under 2-1/2		2-1/2 and Older		
	Full-Day	Part-Day	Full-Day	Part-Day	School Age-Day
Licensed and Licensed Exempt Day Care Center 760, 761	\$33.77	\$16.89	\$20.50	\$10.25	\$11.85
Licensed Day Care Home or Licensed Group Day Care Home 762, 763	\$19.14	\$9.57	\$16.40	\$8.20	N/A

GROUP II COUNTIES

All other counties not listed above

	Under 2-1/2		2-1/2 and Older		
	Full-Day	Part-Day	Full-Day	Part-Day	School Age-Day
Licensed and Licensed Exempt Day Care Center 760, 761	\$24.36	\$12.18	\$17.68	\$8.84	\$10.74
Licensed Day Care Home or Licensed Group Day Care Home 762, 763	\$16.59	\$8.30	\$13.84	\$6.92	N/A

ALL COUNTIES

	All Children		You cannot charge a parent receiving subsidized child care a higher rate than you charge your private paying clients.
	Full-Day	Part-Day	
Licensed Exempt Day Care Home, Non-Relative in Child's Home or Relative 764, 765, 766, 767	\$9.48	\$4.74	

Appendix D. Proposed New Base Reimbursement Rates

The rates listed below are the maximum rates that the Department will pay per day.

- For care provided less than 5 hours per day, use the part-day or school age-day rate.
- For care provided from 5 through 12 hours per day, use the full-day rate.

GROUP IA COUNTIES

Cook • DuPage • Kane • Kendall • Lake • McHenry

	Under age 2		Age 2		Age 3 and older		
	Full-Day	Part-Day	Full-Day	Part-Day	Full-Day	Part-Day	School Age-Day
Licensed and Licensed Exempt Day Care Center 760, 761	\$43.00	\$21.50	\$34.60	\$17.30	\$30.00	\$15.00	\$15.00
Licensed Day Care Home or Licensed Group Day Care Home 762, 763	\$25.00	\$12.50	\$25.00	\$12.50	\$23.00	\$11.50	N/A

GROUP IB COUNTIES

Boone • Champaign • DeKalb • Kankakee • Madison • McLean • Monroe • Ogle • Peoria •
Rock Island • Sangamon • St. Clair • Tazewell • Whiteside • Will • Winnebago • Woodford

	Under age 2		Age 2		Age 3 and older		
	Full-Day	Part-Day	Full-Day	Part-Day	Full-Day	Part-Day	School Age-Day
Licensed and Licensed Exempt Day Care Center 760, 761	\$37.15	\$18.58	\$31.00	\$15.50	\$26.00	\$13.00	\$15.60
Licensed Day Care Home or Licensed Group Day Care Home 762, 763	\$20.00	\$10.00	\$20.00	\$10.00	\$19.00	\$9.50	N/A

GROUP II COUNTIES

All other counties not listed above

	Under age 2		Age 2		Age 3 and older		
	Full-Day	Part-Day	Full-Day	Part-Day	Full-Day	Part-Day	School Age-Day
Licensed and Licensed Exempt Day Care Center 760, 761	\$26.80	\$13.40	\$24.36	\$12.18	\$19.60	\$9.80	\$11.76
Licensed Day Care Home or Licensed Group Day Care Home 762, 763	\$18.00	\$9.00	\$17.50	\$8.75	\$17.00	\$8.50	N/A

ALL COUNTIES

	All Children		
	Full-Day	Part-Day	
Licensed Exempt Day Care Home, Non-Relative in Child's Home or Relative 764, 765, 766, 767	Registered \$11.00	Registered \$5.50	You cannot charge a parent receiving subsidized child care a higher rate than you charge your private paying clients
	Non-registered \$9.48	Non-registered \$4.74	

Appendix E. Draft Quality Counts Tiered Reimbursement System Proposal

The draft report “IDHS Child Care Program Tiered Reimbursement System: Recommendations of the Child Care and Development Advisory Council Work Group” (40 pp.) is available from the IDHS Bureau of Child Care. Contact Megan Fitzgerald at 312-793-3610 or dhsd6017@dhs.state.il.us.

End Notes

1. A. Rolnick and R. Grunewald, "Early Childhood Development: Economic Development with a High Public Return," *Fedgazette*, (Federal Reserve Bank of Minnesota, January, 2003) at <http://minneapolisfed.org/pubs/fedgaz/03-03/earlychild.cfm>.
2. L. J. Schweinhart, H. V. Barnes, and D. P. Weikart, "Significant Benefits: The High/Scope Perry Preschool Study through Age 27" (Ypsilanti, MI, High/Scope Press, 1993). See also A. J. Reynolds, J. A. Temple, D. L. Robertson, and E. A. Mann, "Age 21 Cost-Benefit Analysis of the Title I Chicago Child-Parent Center Program, Executive Summary, June 2001" (report presented at the Annual Meeting of the Society for Prevention Research in Washington, DC, June 1, 2001).
3. R. N. Brandon and E. J. Maher, "Financing a System of High-Quality Early Care and Education in Illinois" (University of Washington, 2003).
4. Inflation calculator is available from the U.S. Department of Labor Bureau of Labor Statistics at <http://data.bls.gov/cgi-bin/cpicalc.pl>.
5. Dawn Ramsburg and others, "Illinois Salary and Staffing Survey of Licensed Child Care Facilities: FY 2003" (Illinois Department of Human Services, April, 2004), p.24, fig. 6.
6. "Employment Cost Index – June 2004," *Bureau of Labor Statistics News* (United States Department of Labor, July, 2004), p. 2.
7. Consumer Price Index – Average Price Data for U.S. city average, utility (piped) gas – 40 therms (U.S. Department of Labor, Bureau of Labor Statistics, Series ID: APU000072601), at <http://www.bls.gov/data/home.htm>.
8. THOMCO, an insurance company specializing in child care services, wrote in a letter to its customers (January, 2004): "THOMCO is the largest market for childcare insurance in the United States. We, along with our competitors, are increasing our rate levels between 25 to 35%. We regret the impact on our customers, but this is necessary to ensure the future viability of an insurance market for the childcare community."
9. Extensive research has been completed on quality. For summaries and citations, see Valerie Krajec and others, "Who's Caring for the Kids? The status of the early childhood workforce in Illinois" (Wheeling, IL: The Center for Early Childhood Leadership, June, 2001). See also Steve Barnett, "Better Teachers, Better Preschools: Student Achievement Linked to Teacher Qualifications," *NIEER Preschool Policy Matters*, Issue 2 (March, 2003).

10. All statistics are from Ramsburg and others, “Illinois Salary and Staffing Survey of Licensed Child Care Facilities: FY 2003” (Illinois Department of Human Services, April, 2004), except for the 43% of uninsured licensed home providers, which is from David Newville, “When Child Care Meets Health Care: What other States can Teach us about Insuring the Child Care Workforce in Illinois, a working paper for the McCormick Tribune Foundation” (Day Care Action Council, now Action for Children, July, 2003).
11. See 42 U.S.C. §9858c(c) (4) (A) for requirements for a state to receive assistance under the Child Care and Development Block Grant program.
12. Charts were prepared by Action for Children, developed from unpublished 2004 Market Rate Survey data. The Market Rate Survey was completed by Dawn Ramsburg and Philip C. Garnier of the University of Illinois.
13. Allocation of Total Outlays from the “1999 Consumer Expenditure Survey” (U.S. Department of Labor, Bureau of Labor Statistics).
14. “Who’s Minding the Kids? Child Care Arrangements: Spring 1999” (U.S. Census Bureau).
15. The average monthly number of children cared for monthly in license-exempt home is 86,693 in 2004. The average monthly number of license-exempt home providers participating in CCAP is 38,623 in 2004. Numbers provided by IDHS Bureau of Child Care and Development.