Feeling the Pain

The Emerging Impact of Minnesota's $86 Million Cut to Child Care

January 2004

"I've been working in child care for twelve years and things have never been this bad. I lost three children this past month due to assistance cut backs. One family has two children, and their co-pay was $96 and went up to $596. The mother had to quit her job because she couldn't afford child care. So the parent loses out and the provider loses out. Many other providers have told me that they will probably go out of business because of this."

—Child Care Provider, Wadena

Minnesota lawmakers entered last year's legislative session with a $4.2 billion budget deficit to resolve. Rather than taking a balanced approach that included tax increases and spending cuts, they temporarily closed the gap with drastic cuts to state funded services over the next two years. The true community effects of these cuts are only beginning to become apparent. This report examines the emerging impact of the cuts made to child care assistance programs. Initial findings reveal that:

- families who are still eligible to receive child care assistance are struggling to pay their increased co-payments—saying that each month they must choose between child care and basic necessities, such as food;
- more families are returning to welfare because they cannot afford child care;
- more families across the state are being told that they must wait to receive child care assistance; and
- many child care providers are reducing their capacity while some are closing their businesses.

Despite some lawmakers' suggestions to the contrary, these Minnesota families are feeling real pain and the community as a whole is and will be affected as a result. These indicators suggest that Minnesota children are being put at risk. Forced into a corner, working parents may have no other choices but to quit their jobs and go on welfare (where they are guaranteed to get financial assistance with child care) or put their children into less expensive, and most likely inferior-quality care situations. These situations are much less likely to provide the nurturing, stimulating environments young children need to enter kindergarten ready to learn and able to read by the end of first grade—a goal set last year by Governor Pawlenty.

The average cost for full-time licensed care for an infant is $10,868 in the Twin Cities metro area and $7,592 in Greater Minnesota.

Why Care About Child Care?

A recent study by the Federal Reserve Bank of Minneapolis indicates that investing in early childhood is one of the best long-term public investments the state can make. Quality early childhood programs generate a 16 percent rate of return on investment, 12 percent of which is public return.

Research shows that low-income children in quality early childhood programs are less likely than their peers to:

- drop out of school,
- be in special education,
- repeat a grade,
- be arrested as juveniles, and
- need welfare benefits as adults.

$86 Million Cut From Child Care Assistance Programs

Minnesota's child care assistance programs allow eligible working families to choose a private child care provider and then receive financial assistance from the state to help pay for the cost of care. These programs have proven essential in enabling parents to work, and allow children to be cared for in safe, enriching settings. But, the continuing effectiveness of these programs was seriously eroded by the 2003 state legislative budget cuts. Overall child care funding was cut by $86 million dollars, which included a 50 percent decrease in the amount of state assistance available for Basic Sliding Fee (BSF)—a program available to working families who earn enough to keep themselves off welfare, but not enough to afford the high cost of child care. The child care funding cuts were accomplished with many different policy changes, but they included drastically decreasing income eligibility for the program, significantly raising parent co-payments, and freezing the amount the state will reimburse child care providers to 2001 market rates.

State Rankings for Income Eligibility for Child Care Assistance BEFORE 2003 Cuts

1. Connecticut
2. Hawaii
3. Alaska
4. **Minnesota**

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14. Mississippi

State Rankings for Income Eligibility for Child Care Assistance AFTER 2003 Cuts

1. Alaska
2. Hawaii
3. Maine
4. Nevada

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12. Mississippi

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29. **Minnesota**

Source: Children's Defense Fund, Child Care WORKS

Almost 265,000, or 69 percent of Minnesota children under age six live in households where all parents are employed and need some form of child care in order for those parents to stay in the workforce.

Mississippi More Family Friendly than Minnesota

Previously in Minnesota, a family could earn up to 75 percent of the state median income and still qualify for child care assistance. This was equal to about $43,000 for a single parent with two children, or approximately 290 percent of the federal poverty guidelines.

Now those families are not eligible to begin receiving help if they earn more than $26,075, or 175 percent of the federal poverty guidelines. This change drops Minnesota below even Mississippi in income eligibility standards for child care assistance. In Mississippi, a family of three can earn up to $31,000, or 203 percent of the poverty guidelines and still be eligible for help paying for child care. Mississippi ranks last in the nation for child well-being.

Last summer, 1,200 working Minnesota families were immediately cut off from continuing to receive help paying for their child care.

Co-Payments For Families Who Are Still Eligible Increased Significantly

The amount that a family receiving child care assistance must contribute, or their co-payments, increased for approximately 25,000 Minnesota families last summer and fall. The average increase was about 57 percent for families of three and four.

"My co-payment increased by over $200...I had to remove my daughter from a loyal and loving child care provider and place her with her grandmother who has mental health issues...[I'm] exchanging quality of care for cost of care."

—Mother, Anoka County

Impact on the Family Budget for a Minnesota Family of Four after Child Care Assistance Co-Payment Increases and Eligibility Decreases

Percent of the Federal Poverty Line	Yearly Income	Monthly Income	Old Monthly Co-Pay	New Monthly Co-Pay	Percent Increase for the Family
275%	$50,600	$4,216	$771	Ineligible	
250%	$46,000	$3,833	$551	Ineligible	
225%	$41,400	$3,450	$361	$592	64%
200%	$36,800	$3,067	$208	$376	81%
175%	$32,200	$2,683	$122	$200	64%
150%	$27,600	$2,300	$67	$109	62%
125%	$23,000	$1,917	$45	$82	83%
100%	$18,400	$1,533	$45	$59	31%
75%	$13,800	$1,150	$5	$10	100%
50%	$9,200	$767	$0	$0	0%

Source: Minnesota Session Laws 2003, Special Session 1, Chapter 14, Article 9, Section 36

"I cannot afford child care with the wages I make. I am desperately trying to stay off welfare and will be attending school to eventually have a job where I can pay child care. If I am forced to pay child care now I will be forced to not work and remain on welfare."

—Mother, St. Paul

Families Are Being Forced Back Onto Welfare

Access to safe, stable, and affordable child care is essential to enabling parents to work. For many low-income families, it may make the difference between climbing out of poverty or falling deeper into it. Numerous national studies have clearly illustrated the link between having access to affordable child care and entry onto public assistance rolls. **According to a September 2003 Urban Institute report, low-income working families who receive assistance with child care are significantly less likely to return to welfare.**

Last November, Hennepin County surveyed all families applying for the Minnesota Family Investment Program (MFIP), the state's welfare assistance program. The survey asked families to cite the dominant reasons leading them to apply. Approximately 33 percent reported child care-related issues. This number is up one-third from when the survey was last done in 1999.

Similarly, Ramsey County surveyed families cut off from child care assistance last summer and fall and found that 69 percent said that losing this help affected their employment and/or schooling. Fifteen percent subsequently applied for alternative forms of financial assistance that are available to lower-income families such as MFIP, Food Support, Medical Assistance, or Emergency Assistance.

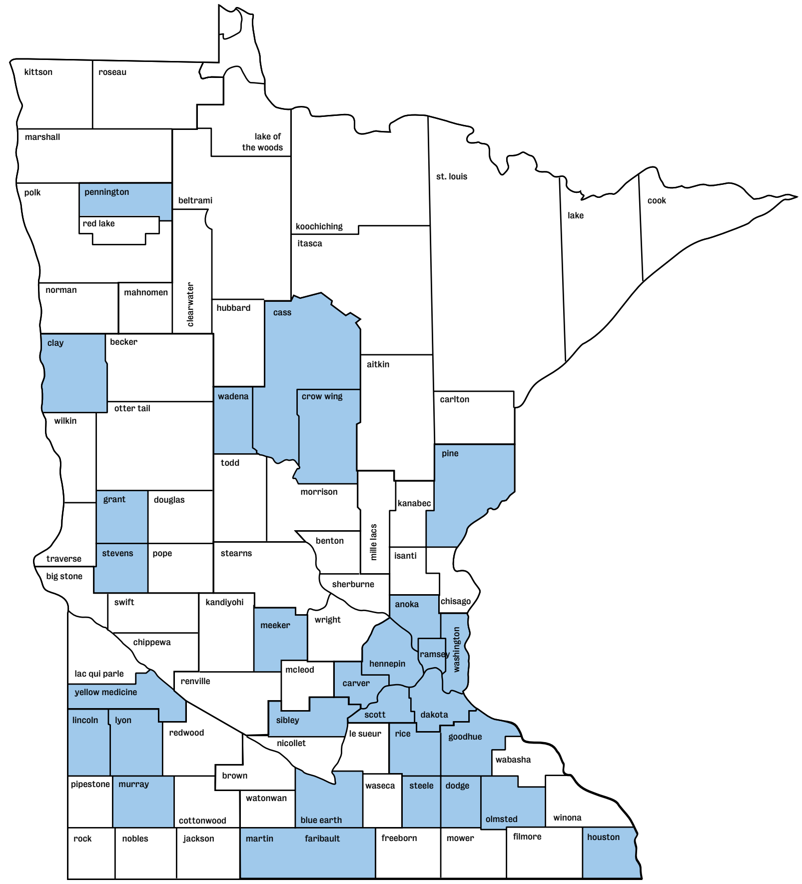
These statistics suggest a very disturbing trend—that our current policies are pushing families onto welfare rather than aiding them in their efforts to get and stay off.

Growing Waiting Lists Across the State

Funding for the Basic Sliding Fee (BSF) program is capped by the Legislature each year, irrespective of how many Minnesota families are income-eligible. Consequently, many families must wait. In September 2002, 4,290 families across the state were on child care assistance waiting lists. At the end of September 2003, almost 8,000 Minnesota families were waiting for help. Currently, some families are being told that they will have to wait at least two years before they will actually receive assistance.

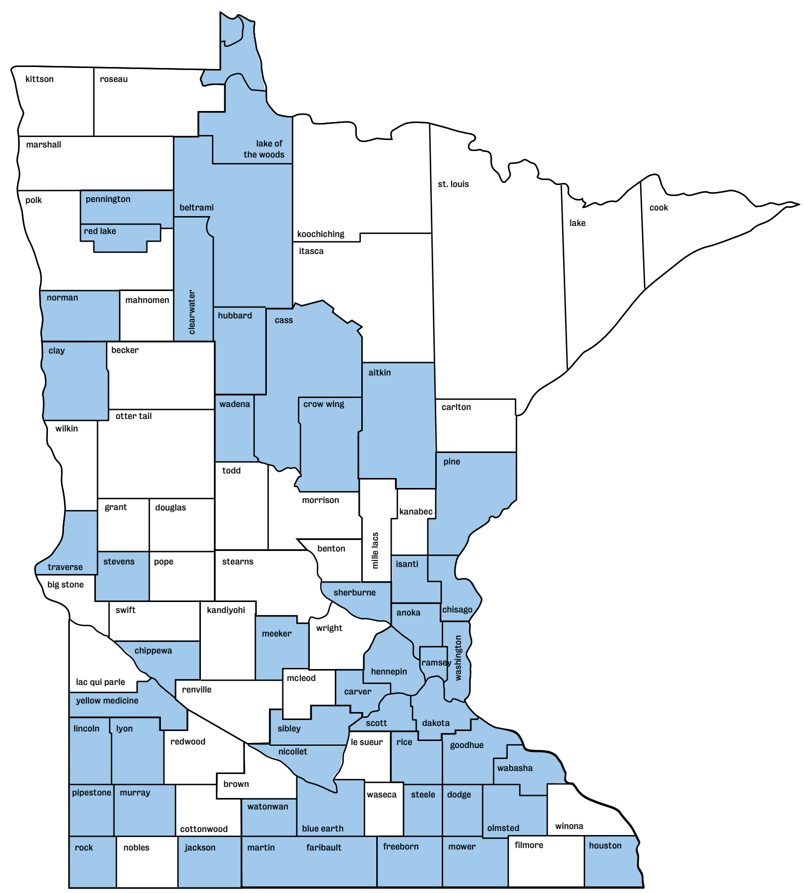
Additionally, a number of counties that have never had a child care waiting list before now have one. This is especially true in the rural areas of the state. At the end of September 2003, 46 counties (more than half of all Minnesota counties) had a waiting list. This represents a 70 percent increase from March 2003, when only 27 counties had waiting lists.

Basic Sliding Fee Child Care Program Counties with Waiting Lists, March 2003



Source: Minnesota Department of Human Services

Basic Sliding Fee Child Care Program Counties with Waiting Lists, September 2003



Source: Minnesota Department of Human Services

> **"One family left because [their] co-pay was so high…My other parents pay me my parent fees late because they have doubled. I am only getting half of what I was before for school-agers. I will be quitting child care at the end of next summer. I simply can't make ends meet and expenses are still going up and I still work as many long hours."**
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> **—Child Care Provider, Minneapolis**

Child Care Providers Are Closing Their Businesses

The licensed child care industry grosses $692 million annually in Minnesota—more than 77 percent the size of the corn industry. But because the 2003 Legislature froze the amount the state would contribute for each child receiving assistance at 2001 market rate levels, many providers who serve high numbers of low-income families may no longer be able to afford to stay in business. Predictions were that this would hit providers in some communities harder than others. To date, at least 30 child care centers across the state, from Thief River Fall to Duluth to Eden Prairie to Winona, have closed since last July.

Other providers have seen decreases in their business as well. The Minnesota Child Care Association (MCCA) recently surveyed its membership and found that their daily occupancy has dropped from approximately 75 percent last July to 69 percent this month. Anecdotes from MCCA suggest many of their providers are addressing the decrease in occupancy by reducing their capacity permanently by laying off workers and/or no longer taking children of certain age groups. This decreased capacity is an issue that affects all Minnesota working families and their employers. **If there are not enough available child care slots within a geographic area, both lower- and upper-income working parents will encounter barriers to work.**

> **"I am no longer willing to accept children on child care assistance/subsidy now or in the future."**
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> **—Child Care Provider, Wadena**

Concluding Comments

As the 2004 legislative session begins, CDF Minnesota and Child Care WORKS call upon state lawmakers to re-commit to our youngest children. Child development specialists and a leading state economist agree that investing in early childhood programs is a valuable and cost-effective use of public funds, yet during the 2003 legislative session, Minnesota policymakers ignored this expertise. The effects of the $86 million cut from state child care programs are beginning to emerge and it is clear that Minnesota and its children are feeling pain—parents are struggling to pay for child care and still provide for their families' other basic needs, other families are finding relief only by going back to welfare, while child care providers cannot afford to stay in business. Our policymakers are obliged to consider these immediate effects as well as the long-term consequences. At a minimum, they need to re-examine these cuts, but more importantly Minnesota must regain its mantle as a national leader on early childhood policy. This can be accomplished in part by ensuring that working families who need assistance paying for child care are able to access care that is of high-quality and affordable.