



still **Missed Opportunities Produce Costly Outcomes**

(Updated as of June 2006)

By Children's Defense Fund Minnesota
and Child Care WORKS

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Introduction



A strong, productive society starts by ensuring our youngest children are in stimulating, nurturing environments where they can thrive and prepare for success in school and life. Quality early care and education can provide those settings to children of working parents, but too many of Minnesota's working families cannot access affordable, quality care.

Minnesota's early care and education infrastructure is crumbling, having grown weaker over the past several years. The majority of Minnesota's youngest citizens are in child care for some portion of their day, but statewide there are fewer providers, parents are having a harder time finding the type of care they want, and too many families find child care unaffordable. **Simultaneously, public resources that support low-income families' access to quality care have been drastically reduced.** The state legislature cut more than \$200 million from child care during the 2003 and 2005 legislative sessions. Some progress was made during the 2006 legislative session with some key investments in child care. These

investments are a strong start toward repair, but long-term solutions are necessary to ensure that every child can access quality early care and education.

All Minnesotans have a stake in the strength of the early care and education infrastructure and working families' ability to access it. Experts in many fields—including primary school teachers, law enforcement, economists, early brain development researchers and local business leaders—argue that investing public dollars in quality early care and education, especially for children from low-income families, produces good outcomes for children and significant benefits to the broader community. In the short term, there are clear actions the state can take to increase access to quality care by investing public dollars in child care. But, a viable long-term solution is also needed. Achieving a long-term solution will take commitment from all stakeholders as well as the innovative Minnesota spirit our state has exemplified so well in addressing other public concerns.

This brief is an update to *Missed Opportunities Produce Costly Outcomes*, an

"It is a rare public policy initiative that promotes fairness and social justice and, at the same time, promotes productivity in the economy and society at large. Investing in disadvantaged young children is such a policy ... Early interventions for disadvantaged children promote schooling, raise the quality of the work force, enhance productivity of schools, and reduce crime, teenage pregnancy and welfare dependency...Focusing solely on earnings, returns to dollars invested are as high as 15 percent to 17 percent... The best way to improve schools is to improve the students sent to them. A substantial benefit of early intervention is improvement of the performance of disadvantaged children in schools."

—James J. Heckman,
2000 Nobel Laureate
in Economics,
Wall Street Journal,
January 2006

April 2005 report that examines child care policy and funding in Minnesota, focusing on the Child Care Assistance Program (CCAP). CCAP provides low-income working parents sliding-fee financial assistance to help pay the high costs of child care. CCAP policies and funding have changed dramatically over the past three years. *Missed Opportunities* sketches an overarching picture of early care and education stakeholders (including children, parents, child care providers, businesses and communities) and describes how recent policy and funding decisions have impacted each. Those descriptions remain relevant and serve as a good resource. The current brief provides updated data and describes the first step Minnesota can take to care for our youngest children.

Most Families Depend on Child Care, but Costs Strain Many Families' Budgets

Approximately three-fourths of Minnesota families with children under the age of 13 regularly rely on some type of child care (defined as non-parental care and care provided outside of primary school time)¹. Minnesota families, on average, use two different child care arrangements and their children spend an average of 24 hours per week in care.

While the public may perceive that free care from families and friends is widely available, in reality, most Minnesota working families pay for care, and the percentage has increased over the past five years. **In 1999, 59 percent of Minnesota families who used child care paid some out-of-pocket costs. By 2004, 70 percent of these families paid some out-of-pocket costs.**²

Simultaneously, child care in Minnesota (and across the nation) grew more

expensive. **Between 1998 and 2004, average rates for child care increased by about one-third.**³ This reflects an average increase of about five percent per year, which is greater than inflation.

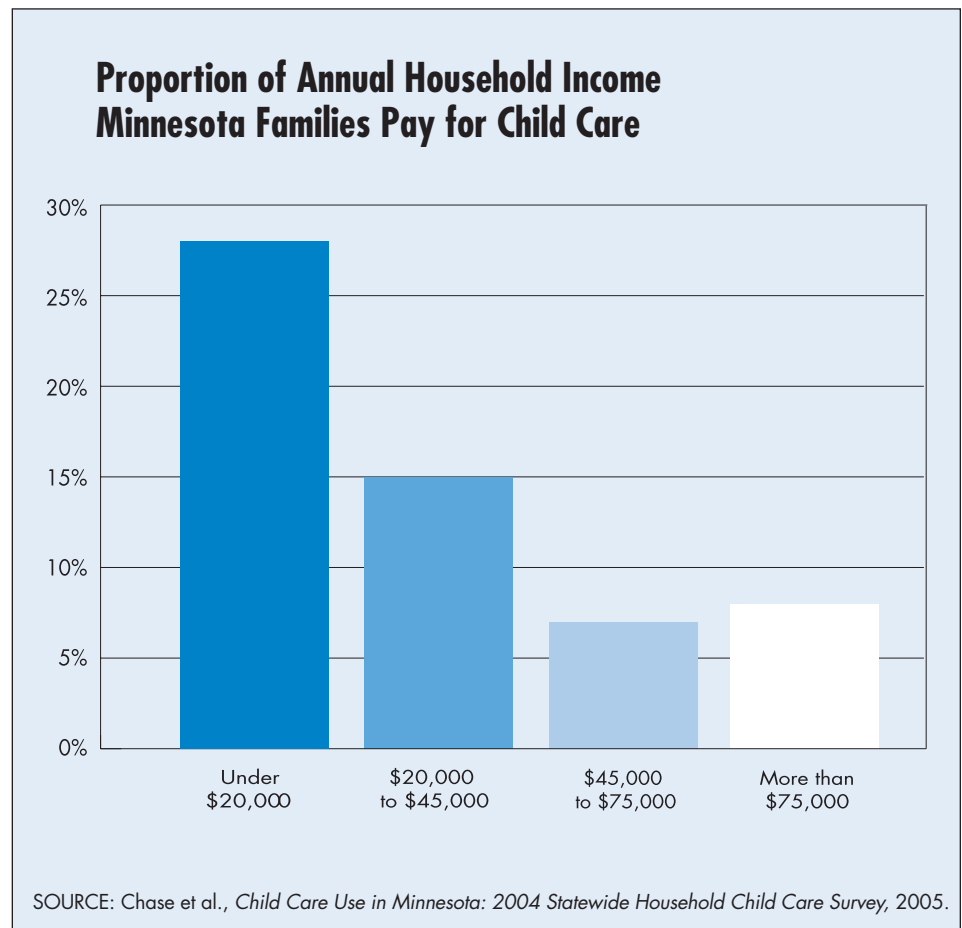
The costs of child care often burden young families. **In 2005, the average price of care for a preschooler and an infant in a licensed child care center in Minnesota was more than \$20,000 per year.**⁴ This was 73 percent of the 2004 median annual income for a Minnesota single parent (about \$28,400) and 27 percent of the same income for Minnesota's two-parent families (about \$77,700).

Many Minnesota families rely on less expensive and sometimes lower quality options, but even then child care can be unaffordable, especially for the lowest wage families. **In 2004, Minnesota families earning less than \$20,000 annually paid, on average, 28 percent of their**

income for child care.⁵ Conversely, families earning more than \$45,000 spent less than ten percent on average of their annual income.

Decrease in Licensed Child Care Providers Statewide

As child care costs have risen, working parents across the state also have had increasingly fewer licensed options for child care. According to data from the Minnesota Child Care Resource and Referral Network, the number of licensed child care providers remained relatively stable during the first two years of the decade, but began to drop in 2003.⁶ **From July 2003 to January 2006, there was a statewide net loss of 1,127 licensed child care providers.** This represented a nine percent loss of licensed family child care providers and a two percent decrease of licensed child care centers.

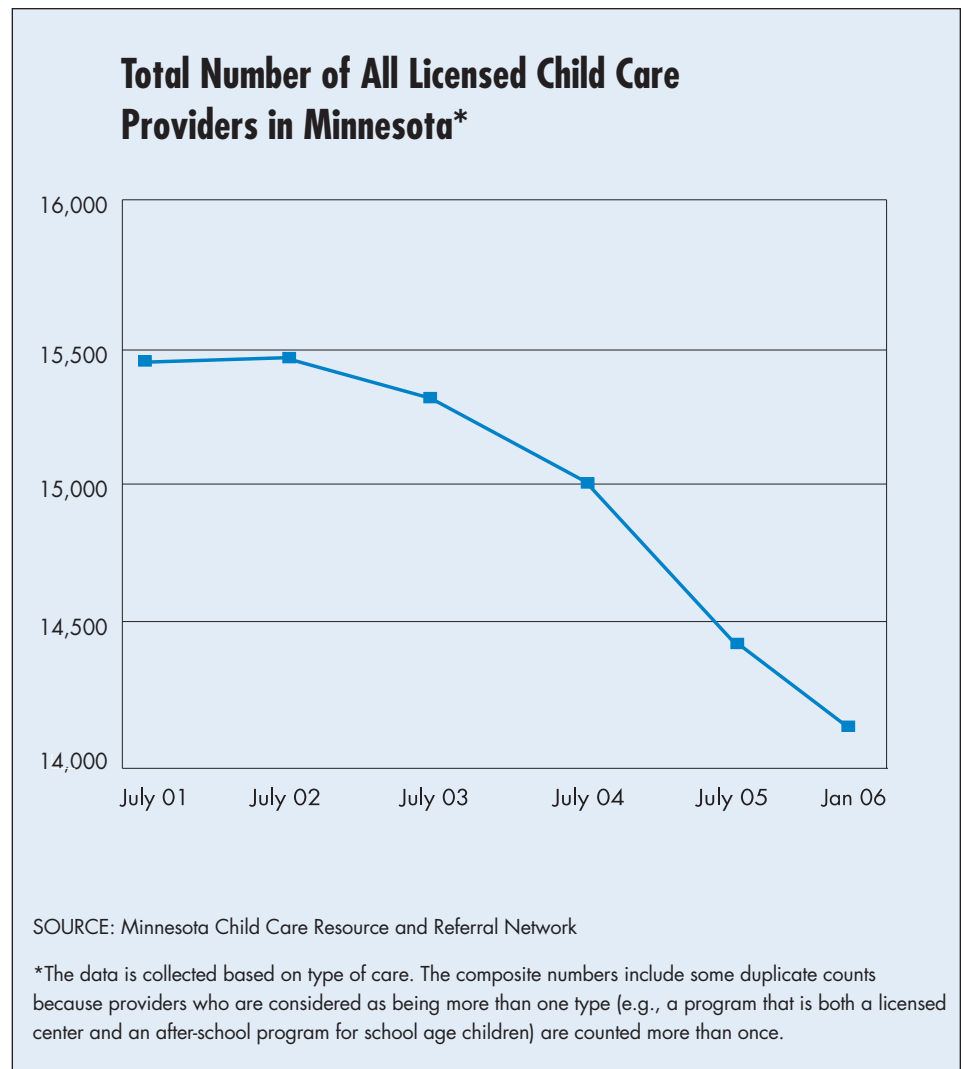


Fewer Affordable Choices Affect Parents' Decisions

Recent data confirm that as the percentage of Minnesota working families who pay for child care has increased and their number of licensed options has decreased, parents have experienced more barriers in finding the care they want for their children.

- The percentage of parents using local Child Care Resource and Referral agencies who reported at least one problem finding child care is on the rise. In 2003, about 64 percent of parents reported such problems, but by 2005, more than 71 percent of parents reported having difficulties finding child care.⁷
- Similarly, 29 percent of Minnesota parents said that they “had to take whatever child care arrangements they could get” in 2004, an 8 percent increase from 1999.⁸ More than a third of low-income parents reported having to make this choice in 2004.

When working parents have difficulties accessing affordable, stable child care, it impacts their ability to participate in the workforce. In both 1999 and 2004, approximately 20 percent of Minnesota parents indicated that child care problems interfered with getting or keeping a job in the previous year.⁹ But the lack of affordable, stable care hits low-income parents particularly hard. In 2004, more than one-third of low-income Minnesota parents said that child care problems had interfered with getting or keeping a job in the previous year. In addition, the percent of all working Minnesota parents who said that they or their spouse or partner had missed time from work within the past six months because of a problem with child care (not including occasions



when the child was sick) increased from 23 percent in 1999 to 37 percent in 2004.¹⁰

Public Investment in Child Care in Minnesota, 2002–2005

To the extent that high quality early care and education encourages children’s healthy development and parents’ ability to work, it is a public good. As such, federal, state, and local governments have an important role in ensuring the stability and accessibility of the infrastructure—much in the same way government supports other community infrastructures, such as roads and public safety.

According to recent research by

McKinsey & Company, 80 percent of the approximately \$1.5 billion spent on early child care and education in Minnesota is paid by working families.¹¹ All three levels of government finance the remaining 20 percent. Of the amount the government spends, the state government pays 43 percent. Minnesota spends approximately one percent of the entire state budget on early childhood care and education.¹²

About half of the state’s funding pays for Minnesota’s Child Care Assistance Program (CCAP). CCAP helps several types of families—those who participate in the state’s welfare-to-work program (the Minnesota Family Investment Program, or MFIP, as well as the state’s Diversionary Work Program), those

Minnesotans Support Ensuring Child Care Is Affordable for Working Families

- 50 percent of Minnesotans believe child care should cost less than 10 percent of a working families' budget
- Another 22 percent think the costs should be less than 15 percent of the family's budget.
- 65 percent of Minnesotans support having the state provide financial assistance to working families if their child care costs are unaffordable.

SOURCE: Minnesota Center for Survey Research, *2005 Minnesota State Survey*, University of Minnesota, 2006.

who have left MFIP within the past year and are part of the Transition Year (TY) program, and low-income working families who qualify for assistance through the Basic Sliding Fee (BSF) program. (Families who earn less than 175 percent of the federal poverty line, about 28,000 for a family of 3, are eligible for assistance through BSF. Once on the program, families remain eligible until their income reaches 250 percent of the federal poverty line, about \$40,000 for a family of 3.)

But the state's commitment to CCAP has been drastically reduced in recent legislative sessions. **From state fiscal year 2002 to state fiscal year 2005, state general fund dollars spent on:**

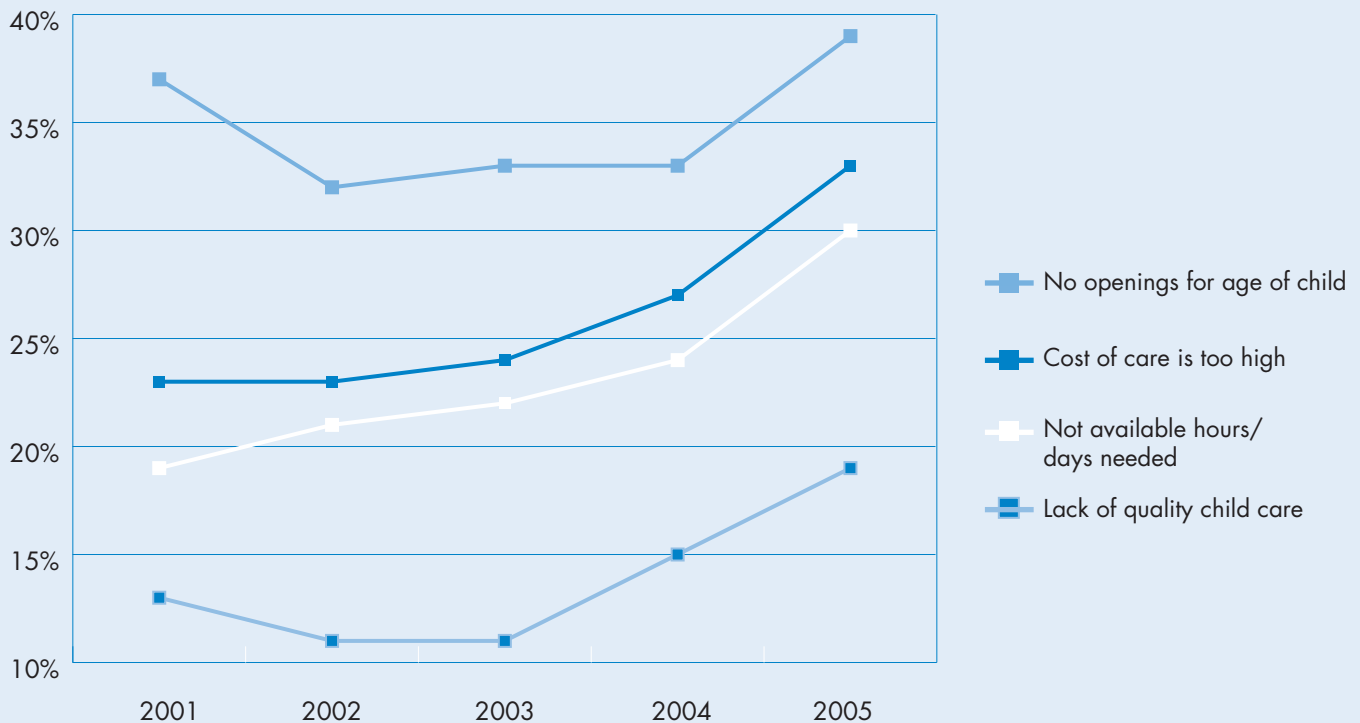
- MFIP/TY child care decreased by 28 percent, and
- The BSF child care funding decreased

by 64 percent.¹³

The decreases in spending are a direct result of substantial policy changes to the program beginning in July 2003. These included, but were not limited to, the following:

- Drastically decreasing program income eligibility;
- Increasing family co-payments so that families now pay up to 18 percent of their monthly income to access the assistance;
- Freezing reimbursement rates for providers caring for CCAP children at the 2001 market rate, with a one-time, 1.75 percent increase in 2006; and
- Eliminating a financial incentive for accredited providers to care for CCAP children.¹⁴

Minnesota Working Parents' Reported Problems During Child Care Search, 2000–2005



SOURCE: Wilder Research, *Results of Referral Outcomes Follow-up Surveys*, Prepared for the Minnesota Child Care Resource and Referral Network, 2006.

The Impact on Minnesota Families' Lives

The policy changes made in 2003 saved money in the state budget by automatically making thousands of low-income working families ineligible for assistance and making the financial assistance unaffordable for thousands of other families.

Minnesota is now one of only 16 states that set the initial income eligibility for financial assistance with child care at less than 50 percent of state median income.¹⁵ **Minnesota dropped from being among the top five states in 2001 on this family-friendly policy to being among the bottom ten states in 2005.**¹⁶ Mississippi, which ranks last in overall child well-being, performs better than Minnesota.

The consequences for many Minnesota families have been severe. Given the rising costs of child care, the need for financial assistance for child care has not changed. **But, as of October 2005, approximately 11,000 fewer Minnesota children received assistance than in June 2003.**¹⁷

Especially concerning is that this includes a *30 percent decrease* in participation for Minnesota's lowest wage working families who are either on or are transitioning off the state's welfare-to-work program.

These working families are guaranteed financial assistance for child care, if they choose it, but over the past three years, fewer and fewer of them have sought assistance, which raises the question of whether the program is truly providing access. Testimony by the state Department of Human Services pointed



to analysis that the policy changes, like the provider reimbursement rate freeze, have rendered CCAP inaccessible and unaffordable, even to Minnesota's lowest wage families.¹⁸

The decrease in the number of families accessing assistance through the Basic Sliding Fee program was more predictable. BSF is funded through a capped appropriation, so regardless of the number of eligible families, only a limited

number actually receive assistance. **As of April 2006, more than 5,000 families statewide (representing more than 8,800 children) were on a waiting list for the Basic Sliding Fee program.**¹⁹ Waiting for help has a major impact on these families' ability to work and provide for their children.

According to a recent study by the National Women's Law Center, almost three-quarters of families on Minnesota's waiting list had changed jobs or educa-

"The child care assistance system determines both *whether* low-income children have access to child care and what the *quality* of that experience is when they do receive help."

—Helen Blank, National Women's Law Center, testifying before a Minnesota Legislature Joint Hearing on child care, January 2006 (emphasis added)

Limited Federal Funding Has Further Squeezed Minnesota's Child Care Infrastructure

From state fiscal year 2002 to 2005, federal funding for Minnesota's Child Care Assistance Program decreased by 15 percent.

Child care access for low-income working families will be further limited following federal changes that as of October 2006 increase the work requirements for welfare-to-work families, thus increasing these families' child care needs. Federal funding for this change falls far short of what will be needed.

tion plans because they were still waiting for assistance. Nearly half reduced or changed their work hours. More than one-third said they were unable to pay other household expenses due to child care costs.

Under federal law, state child care assistance programs must ensure that participating families have ample choice of providers. Again, the 2003 policy changes to CCAP have made families' access to providers increasingly difficult. Providers can only afford to care for CCAP children if their costs for that care will be fully reimbursed. But while their heating, health care, and other costs have compelled providers to raise their rates, the reimbursement rates they receive for CCAP children have been essentially frozen.

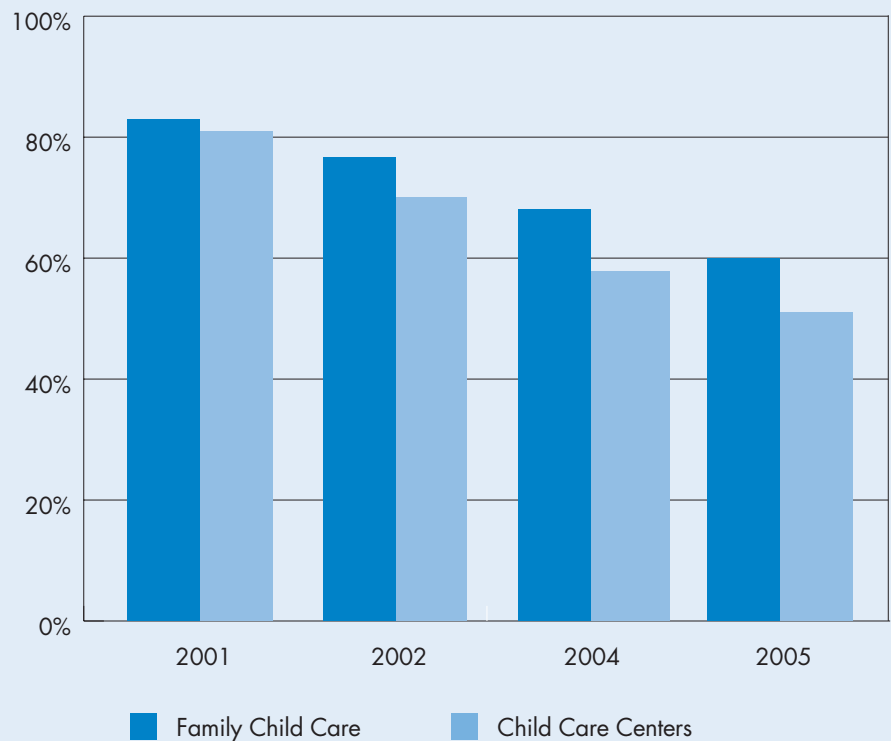
Providers who cannot absorb the costs are often forced to pass the difference between their rate and the state's reimbursement rate on to families. As a result, CCAP families have increasingly fewer choices of providers. In 2001, CCAP parents could choose from more than 80 percent of licensed family care and centers across the state, but by 2005, only 60 percent of family providers and about half of child care centers statewide were fully reimbursable with a combination of the state's reimbursement rate and families' required co-payment.²¹ This situation may improve to some degree following the implementation of a maximum rate increase of six percent passed by the 2006 Legislature, but the CCAP reimbursement rate will continue to fall significantly below Minnesota's child care market rates.

The federal government has put Minnesota on notice. In September, 2005, the U.S. Department of Health and Human Services wrote to the Commissioner of the Minnesota Department of Human Services, *"We are concerned that a system of child care payments that does not reflect the realities of the market makes it economically infeasible for many providers to serve low-income children—undermining the statutory requirements of equal access and parental choice."* The letter continues on to state that the current system, *"... may not ensure access to child care of a comparable quality as care purchased by parents of higher income who are not eligible for assistance."*

Where to Go from Here: Creating a Stable Infrastructure that Ensures Access, Affordability, and Quality

The most recent data display troubling trends for Minnesota's youngest children's early care and education. Working Minnesota families are facing increasingly limited choices and access to affordable and quality care. Minnesota must address these hurdles so parents can work while their children are in safe and stimulating environments where they can thrive, play, learn and get ready for success in school and life.

Percent of Minnesota Providers Covered by Maximum CCAP Reimbursement Rates, 2001–2005



SOURCE: Minnesota Department of Human Services

NOTE: The percent of providers covered is calculated by dividing the number of providers with actual rates at or below the maximum rate by the total number of providers.

Legislative Initiatives: 2006 Legislative Session

The Child Care Crisis Bill

The Child Care Crisis bill (SF 2819–Hottinger; HF 3259–Slawik) was introduced during the 2006 legislative session to address the immediate infrastructure, access and affordability issues presented in this report. The legislation’s priorities included:

- Eliminating the reimbursement rate freeze for child care programs serving CCAP families, returning the reimbursement rate to the 75th percentile of the current market to make child care accessible and affordable for low-income working families;
- Providing sliding-fee assistance to the then-nearly 5,000 low-income working families on the Basic Sliding Fee waiting list;
- Increasing entrance eligibility for CCAP to 250 percent of the federal poverty guidelines (about \$40,000 for a family of 3); and
- Providing a 15 percent higher reimbursement rate for accredited child care providers for CCAP families to more closely mirror the rate charged to private-pay families.

2006 Legislative Outcomes

The 2006 legislative outcomes were positive for child care. The Legislature allocated just over \$52 million for 2007-2009 in its supplemental budget for some provisions in the Child Care Crisis bill. The funding includes:

- A one-time maximum 6 percent rate increase for providers who care for CCAP children;
- A possible 15 percent higher rate for accredited child care providers; and



- Funding to reduce the Basic Sliding Fee waiting list.

These investments will help alleviate some of the pain families and the child care infrastructure have been and are experiencing as the child care community works toward long-term, sustainable solutions.

Long-Term Solutions

The child care community is advocating for broad-based child care legislation that would ensure access to affordable and quality child care for all Minnesota children who need it. The legislation—which will be introduced in the 2007 legislative session—will work to create a stable infrastructure, increase access, ensure affordability, and provide incentives for providers to integrate quality into their programs and for parents to choose quality child care.

Conclusion

The vast majority of Minnesota children spend some time in non-parental care each day. Yet as the child care system has become more unstable and public com-

mitment has decreased, access to quality early care and education has declined. The research is clear that young children derive immediate and long-term benefits from quality child care, including greater success in school and eventually, in the workforce. Society sees less crime, less need for costly remedial education, fewer drop outs, fewer teen pregnancies, and better educated workers. In short, investing early in children’s lives pays off for schools, communities, employers, businesses, taxpayers and the economy.

But in order to achieve these benefits, we need to invest in and repair the underfunded, weakened child care system. Doing so will require long-term vision regarding child care policies, and commitment from lawmakers, parents, business leaders, non-profits and communities. Increasing access to affordable, quality child care is fundamental not only to the success of our children, but also to well being of working families and the economic viability of our state. Ensuring that all children who need it have access to affordable, quality child care is an attainable goal and one that is important to achieve.

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