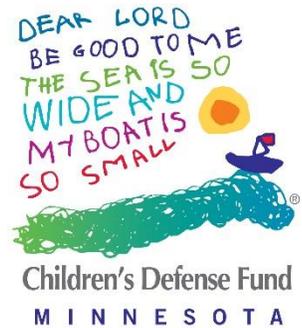


CHILD CARE

A Two-Generational Approach to Family Economic Security



CHILD CARE is an economic resource that is necessary for a strong, productive workforce in Minnesota now and in the future. Child care not only allows parents to work outside the home, but also helps businesses find and keep the employees they need. Moreover, child care that is safe, consistent and includes high-quality instruction, improves a child's chances of being socially and academically ready for kindergarten, which increases positive outcomesⁱ. Child care that is affordable and accessible to all Minnesota families provides a two-generational approach to increasing family economic stability and improving child outcomes while stimulating the state's economy. However, for many Minnesotans child care is unaffordable and inaccessible. As a result, working parents may be forced to piece together a patchwork of inconsistent care arrangements and pay a high percentage of their income in order to go to work.

Consistent Care is Important for Child Well-Being



Consistent, dependable relationships are the foundation for children to form secure attachment to the caregivers in their family. These stable and predictable relationships are also essential to children in child care settings. Changing child care providers and environments too often can be disruptive for a child. Familiar routines encourage learning and provide children with a sense of control. Having a secure attachment to a reliable, trusted caregiver strengthens connections in the brain, and gives children an even stronger foundation for later relationships.ⁱⁱ A safe and consistent child care setting with nurturing teacher-child interaction, high-quality instruction and on-going assessment of a child's development improves a child's chances to be academically and socially ready for kindergartenⁱⁱⁱ. This leads to

increased opportunities for success in grade school, graduation from high school and higher earnings as an adult^{iv}. These positive outcomes for all Minnesota children are vital to Minnesota's economic future and to reduce the high costs of remedial services that are often necessary when children can't access positive early experiences.

Affordable Child Care is a Key Component of Family Economic Security

The economic security of a family is critical to the health and well-being of children and the future prosperity of Minnesota. Children from families with sufficient financial resources are far more likely than children from economically disadvantaged families to start kindergarten ready to succeed, and to flourish in school and later in life. Findings from a 2011 Brookings Institution study examining the effects of family income on school readiness suggest that an additional \$1,000 of average annual family income throughout early childhood can result in higher reading and math scores for children in low-income families. To be able to work, most families need affordable child care. But it is the single largest expense for many Minnesota families. Minnesota ranked fourth among states for the most expensive child care.^v In fact, the average cost of care for an infant at a child care center is more than \$13,000 per year^{vi} — greater than the cost of a year's tuition at the University of Minnesota. The cost consumes 19 percent of the median household income (\$73,900) for families raising children in Minnesota. The high cost of child care may mean that a family can't afford other basic needs like groceries, rent, health care or transportation costs.

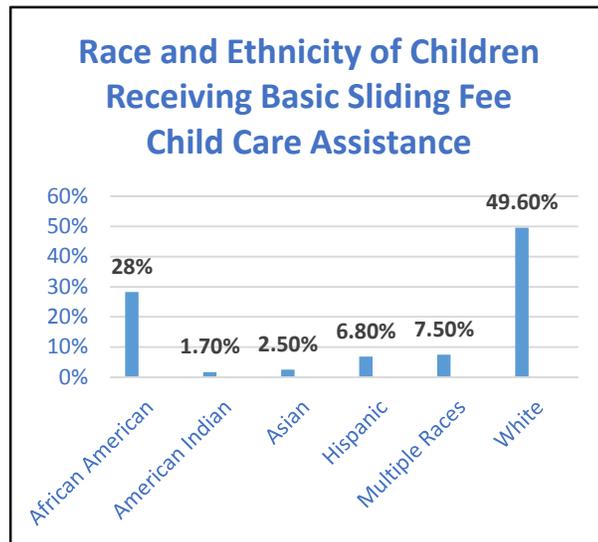
Moreover, when care isn't affordable or accessible, parents may have to miss work. The average parent misses nine days of work every year because of child care challenges.^{vii} Lower income parents are more likely to have child care issues interfere with their ability to work^{viii}. When parents miss work, they may have to use valuable earned time off or, for those workers without benefits, lose a paycheck or their jobs. When parents are absent from work because they don't have child care, their employers suffer from lost productivity. Employee absenteeism due to problems with child care is estimated to cost U.S. businesses \$3 billion each year^{ix}. Additionally, when families can't afford to pay for care, local child care providers miss out on revenue. Ensuring child care is affordable is a win-win for Minnesota's families, businesses and economy.

**More information on bolded terms can be found in the glossary.*

Basic Sliding Fee Child Care Helps Make Child Care Affordable

The **Basic Sliding Fee (BSF) Child Care Assistance Program** helps families pay for child care while they work, look for work, or attend training or school to prepare for work. BSF is one of three programs included in the **Minnesota Child Care Assistance Program (CCAP)**, which is a federal block grant program. CCAP helps pay for child care for children through age 12, or through age 14 if children have special needs.

To qualify for BSF, a family of 3 must have annual income under \$50,553. Families can choose a child care center, a family child care home, or Family, Friends and Neighbors (FFN) care that meet certain requirements. Approximately 8,000 families and 15,000 children on average received assistance through BSF each month in 2014.^x Nearly two-thirds of children receiving assistance through BSF are children under age 6, and half are children of color. Biweekly copayments for a family of three range from \$0 to \$272, depending on family income.



Despite the desperate need for affordable child care across the state, BSF is not funded to serve all the families that are eligible. In fact, in 2012, 82 percent of income-eligible children were not accessing the program^{xi}. As of February 2015 there were 5,800 families on the waiting list to access the program. Nearly half of all families on the wait list wait more than one year before being able to access the program^{xii}. Some eligible families don't sign up for the program knowing that the wait list is so long. An estimated 12,000 additional families would access BSF if the program were fully funded^{xiii}.

There have not been any critical new investments in BSF since 2006. The increased funding in 2006 came on the heels of \$200 million in cuts during the 2003 and 2005 legislative sessions. Since 2003, BSF funding has decreased by 44 percent (adjusted for inflation) and now serves 4,500 fewer families^{xiv}. In the meantime median income has stagnated in the past decade,^{xv} and child care costs have increased, putting more Minnesota families' economic stability at risk.

Child Care Assistance Program is Essential for Positive Development of Young Children

Fueled by decades of research showing high returns on public investment in early childhood education, momentum is high across the country and in Minnesota to ensure all children have access to high-quality early childhood education. CCAP contributes to early success for lower income children because it improves family economic stability, maintains a consistent care environment and increases access to high-quality early education programs. Nearly 40 percent of children enrolled in CCAP are under age 4, which is a time of prime brain development when experiences make a significant difference on social and academic outcomes. Other programs such as Early Learning Scholarships and Head Start often work together with CCAP to ensure families can access affordable child care with an early education component. **Minnesota Early Learning Scholarships** provide 3- and 4-year olds and their siblings living in households below 185 percent of the Federal Poverty Guidelines with scholarships to attend high-quality early childhood education programs to better prepare them for school. With limited funds, the program currently is able to serve about 10 percent of the eligible population, or about 5,000 scholarships each year^{xvi}. **Head Start and Early Head Start** programs provide early education, health, nutrition and social services for families with children under age 6 living in poverty across the state. Studies show Head Start's success in making children ready for kindergarten. Due to limited funding, only about one-quarter of eligible families are served through Head Start in Minnesota^{xvii}

Range in Ages of Children Receiving CCAP, 2014^{xviii}

Age in Years	Birth to 1	2-3	4-5	6-12	13-14
Percentage of Children	15%	23%	23%	39%	.3%

Coordinating Head Start and Early Learning Scholarships with the more flexible CCAP allows limited program dollars to reach more families. Unlike other programs, CCAP can accommodate families with unique child care needs such as non-standard hour care, care for children with disabilities or a preference for Family, Friend and Neighbor care. Additionally, nearly 40 percent of children accessing CCAP are ages 6 to 14 and there are few other resources to make child care affordable for families with school-age children. The expansive reach of CCAP along with how it works together with other early education programs make it a fundamental part of the child care and early education system in Minnesota. By ensuring CCAP can serve all eligible families in accessing the care that meets their need, Minnesota will see long-term benefits from the far-reaching impact on family economic stability and childhood development.

Elizabeth's story: Waiting for Child Care Assistance

Elizabeth is a single mother with a 12-year-old son and a 4-year-old daughter. She has been struggling to afford child care for the past several years, and as a result has had to quit numerous jobs that don't pay enough to make child care affordable for the hours needed.

Currently Elizabeth is working fulltime and has a schedule that maximizes her ability to be home with her children. But still nearly half of her income goes to child care expenses, making it a struggle every month to find a way to meet her family's basic needs. She applied for BSF CCAP more than a year ago, and although her income qualifies her for assistance, she's been stuck on the wait list ever since.

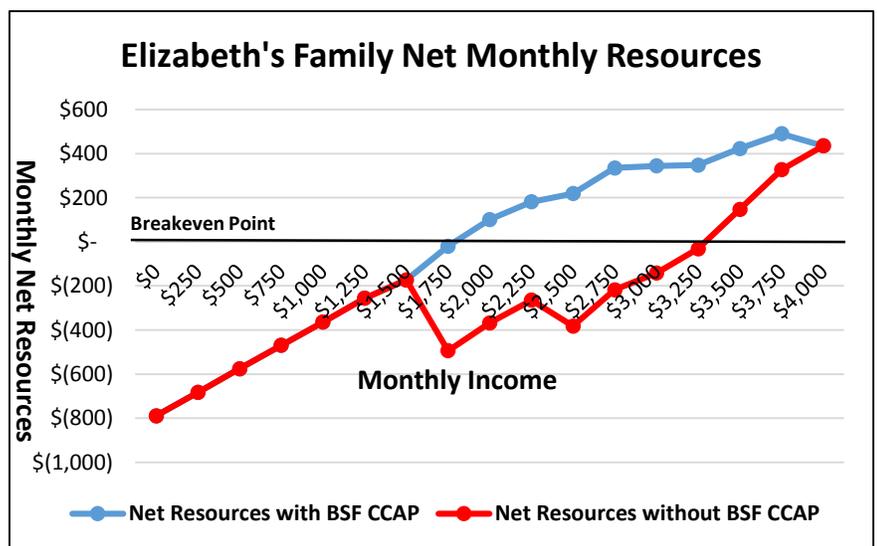
She explains, "If I had assistance with my child care expenses, I wouldn't have to constantly worry about how to pay my bills. My children are old enough to realize that money is tight. I do my best to reassure them that everything is going to be okay, but honestly I am struggling every day to believe that. Just a little bit of help would mean so much."

Elizabeth recently graduated with an Associate's Degree and hopes to secure work in her field and go back to school to become a Public Defender in the future. If child care were more affordable for Elizabeth today, she would be able to better pursue a career that would provide greater economic security for her family in the future.

Children's Defense Fund Minnesota's Economic Stability Indicator (ESI) generated the adjacent line graph, which shows the monthly net resources for a family like Elizabeth's as household income increases. The data includes an estimated basic needs budget^{xix} with costs for food, housing, health care, child care, transportation and other necessities for a safe standard of living. The budget is estimated based on research on what a lower income family living in Hennepin County would pay for basic needs. It also assumes the family is accessing the following work support programs that reduce family expenses: Supplemental Nutrition Assistance Program (SNAP), WIC, Energy Assistance, Minnesota Family Investment

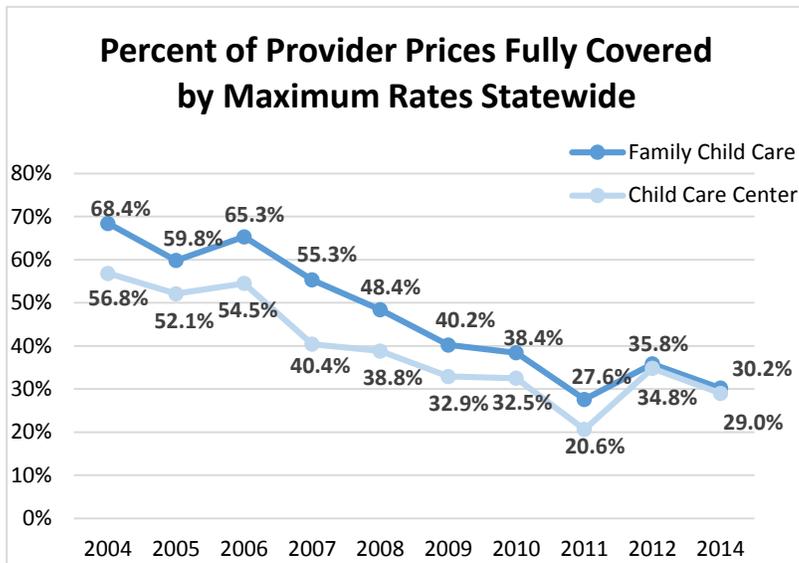
Program (MFIP), Minnesota Health Care Programs, and the School Meal Program. Monthly net resources are the amount of money left over after all basic needs expenses minus work support programs are met using income after taxes. The breakeven point on the graph is when the family's basic needs expenses minus work support programs equal their income, so they are able to breakeven. With the budget being very bare bones, families like Elizabeth's could use the leftover money, if there is any, to pay for other needs *not included* in the estimated budget such as debt payments, transportation other than to school and work, utilities besides electricity, cell phone, internet and school related expenses besides meals.

The blue line shows the family's net resources with access to BSF, and the red line shows net resources without access to the program due to the 5,800 family wait list. A family of three is eligible for **Minnesota Family Investment Program (MFIP) Child Care** until household income is about \$1,800, so that is why the lines are the same from \$0 to \$1,800 in monthly income. There is no wait list to receive MFIP Child Care; however, if the family earns too much to access MFIP and they aren't eligible for **Transition Year Child Care**, they would be on a wait list for BSF. The red line shows how the high cost of child care would leave a hole in the family's budget. Just as the family is starting to be able to meet its expenses with its income and work support programs, they have to pay the full cost of child care and are in the red each month. Without access to BSF, the family is in the hole up to \$550 per month. Until household income reaches \$3,250 per month they are unable to meet their basic needs expenses, let alone the other costs associated with raising a child and working. That means that working parents like Elizabeth would have to earn \$18.75 per hour just to meet basic needs. The median hourly wage for available jobs in Minnesota is \$13 per hour. The blue line shows that with access to BSF the family is able to meet basic needs with income and work support programs and have a little leftover to meet other expenses not included in the bare bones budget. Clearly, BSF and the other Child Care Assistance Programs are necessary for a working family earning low wages to afford basic needs.



Adequate Provider Rates are Key to Access

Under federal law, state child care assistance programs must ensure that families have ample choice of providers. Federal regulations recommend that states keep their provider reimbursement rates at the 75th percentile of current market rates to ensure that an adequate number of providers accept CCAP and that care remains affordable to families accessing CCAP. However, Minnesota's provider reimbursement rate in 2014 was the 25th percentile of the 2011 market rate^{xx}. Due to these insufficient provider reimbursement rates and cuts to CCAP, the number of available providers that accept CCAP has eroded significantly. In 2001, before major cuts to provider reimbursement rates, more than 80 percent of family child care providers and centers accepting CCAP charged rates that were fully covered by the state's reimbursement rate. In 2012, only 30 percent of family providers and centers across the state charged rates that were fully covered by the reimbursement rate. When a provider's rate is greater than what the state reimburses, the cost often gets passed onto families. Families are already paying their CCAP co-payment and struggling to make ends meet on tight budgets, so this limits the number of



providers they can access. Additionally, there are many providers across the state that choose not to pass the additional cost to families and instead take the difference between their cost of care and the state reimbursement rate as a loss. For many providers this cost adds up and has caused centers and family providers to shut their doors. Minnesota Indian Women's Resource Center's Cherish the Children Learning Center in Minneapolis closed in 2014 after operating with annual losses from 2012 to 2014 totaling \$1 million^{xxi}. The center served Native American children, nearly all of whom were eligible for CCAP, and the state reimbursement rate was significantly less than the actual cost to run the center. The culturally appropriate, high-quality care that the center offered was irreplaceable for families.

The issue of inadequate provider reimbursement rates is exacerbated in Greater Minnesota where licensed child care slots are already few and far between. Five counties in Greater Minnesota (Chisago, Kanabec, Koochiching, Murray and Dodge) had no provider rates that were fully covered by the CCAP reimbursement rate. There were six additional Greater Minnesota counties where fewer than 20 percent of provider rates were covered by the state reimbursement. With a higher rate of lower income families in Greater Minnesota, child care providers are discouraged from opening their doors or continuing to operate when the reimbursement rates are low and there aren't enough families who can afford to pay a rate compatible with the cost of care. Therefore inadequate provider rates are not only preventing access to affordable care to families, but also stifling child care businesses.

Policy Solutions to Make Child Care Accessible and Affordable

Children, working parents and businesses can't wait any longer for affordable child care. It is necessary for parents to go to work, for businesses to maximize productivity and for children to experience the long-lasting benefits of improved economic security while receiving consistent, dependable child care. The following policy solutions help address Minnesota's child care challenges:

- Fund the Basic Sliding Fee Child Care Assistance Program so that all eligible families, including the 5,800 families on the waiting list, can afford the child care that meets their needs.
- Raise the state's reimbursement rates to child care providers so that providers can afford to accept families using the Child Care Assistance Program.
- Increase and expand the **Minnesota Child and Dependent Care Tax Credit** to help more low and moderate-income families afford the high cost of care.

Increasing access and affordability of child care has long been a bipartisan solution to improving economic stability for families and the state. The time is now for the state to invest in child care affordability and accessibility so that all Minnesotans can benefit from improved outcomes for children, families and businesses across the state.

Glossary

Child Care Assistance Program (CCAP) helps parents with lower incomes pay for child care for children under 13 or for children with disabilities under age 15. To be eligible, families must apply and meet specific income, work and citizenship rules. Once enrolled in the program, families can choose to enroll their children in a child care center, a family child care home or use Family, Friend and Neighbor (FFN) care that accept CCAP and meet certain requirements. Families pay a biweekly copayment based on their income and the state reimburses the remaining balance up to the total amount of the provider's rate or the state's maximum reimbursement rate. CCAP has three subprograms that families can access:

1. **Minnesota Family Investment Program (MFIP) Child Care** is for families accessing MFIP. MFIP is the state's Federal Temporary Assistance for Needy Families (TANF) Program, or welfare-to-work program. All MFIP families that meet work requirements can access MFIP Child Care. Most families on MFIP Child Care have a \$0 copayment.
2. **Transition Year Child Care** is for parents in the first year after leaving MFIP. Parents must have been on MFIP or the Diversionary Work Program in the past year and working or looking for work for an average of 20 hours per week. Families accessing Transition Year Child Care may be able to get an extension if there is a wait list for BSF in their county when their transition year ends.
3. **Basic Sliding Fee (BSF) Child Care** is for parents who are working, looking for work or going to school. These families must not be enrolled in MFIP and have all parents in the household working on average 20 hours per week. Biweekly copayments range from \$0–\$272 for a family of 3. Due to limited funding, not all eligible families are able to access BSF. Funding for the program is allotted to each county; therefore, some counties have wait lists while others are trying to find families to enroll. As of February 2015 there are a total of 5,792 families on the wait list. Most (59 percent) of the program funding in 2014 came from the federal Child Care and Development Block Grant (CCDBG) and the rest comes from the state (41 percent)^{xxii}.

Head Start and Early Head Start programs provide early education, health, nutrition and social services for families with children under age 6 living in poverty across the state. Studies show Head Start's success in making children ready for kindergarten. Most of Head Start funding comes from a federal grant (83 percent^{xxiii}) and the rest is state dollars. Due to limited funding, only about one-quarter of eligible families are served through Head Start in Minnesota^{xxiv}.

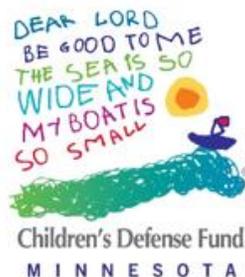
Minnesota Early Learning Scholarships provide 3- and 4-year olds and their siblings living in households below 185 percent of the Federal Poverty Guidelines with scholarships to attend high-quality early childhood education programs. With limited funds, the program currently is able to serve about 10 percent of the eligible population, or about 5,000 scholarships each year^{xxv}. Scholarship funding is provided in two ways. Pathway I scholarships are given directly to families to use at an early childhood program of their choice that has a three- or four-star rating by the Parent Aware Quality Rating and Improvement System and may include Head Start, school district preschool programs, or child care programs. Pathway II scholarships are awarded to a Parent Aware four-star rated program including Head Start, school district preschool programs, and child care programs within geographic regions identified by the Minnesota Department of Education.

Parent Aware is Minnesota's early education Quality Rating and Improvement System (QRIS). Parent Aware rates the quality of early education and child care programs to help families make informed choices and provide a benchmark for certain programs serving lower income families. Providers that have a three- or four-star Parent Aware rating can receive higher CCAP reimbursement rates and can accept families with Early Learning Scholarships. As of June 2014, 34 percent of children under age 6 accessing CCAP were enrolled in a Parent Aware rated early education program^{xxvi}.

Minnesota Child and Dependent Care Tax Credit is a refundable tax credit that helps offset the high cost of child care for some families. Currently, families are eligible for a credit up to \$720 for one child or \$1,440 for two children if they earn less than \$39,000 per year, paid for child care for a dependent under age 13, and worked or looked for work.

Children's Defense Fund–Minnesota's Economic Stability Indicator (www.economicstabilityindicatormn.org) is a web-based tool that can be used to illustrate to policymakers and child advocates the interaction among wages, public programs, tax credits and tax liability in bringing or failing to bring families to economic stability. The tool can demonstrate the gap that exists between low wages and a basic needs budget and the effect public programs and tax credits play in filling that gap.

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- xi Analysis by Children's Defense Fund-Minnesota, 2012. Analysis using participation data from Department of Human Services and income data from U.S. Census Bureau American Community Survey. Note: The analysis only reviews people who are income eligible but not enrolled in the program. It does not take into account other eligibility guidelines such as immigration status or work status.
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- xviii Minnesota Child Care Assistance Program State Fiscal Year 2014 Family Profile, Minnesota Department of Human Services. February 2015.
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