**CHILD CARE**

A Two-Generation Approach to Family Economic Security

*Updated May 2017*

**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 outcomes throughout a child’s life. Child care that is affordable and accessible to all Minnesota families provides a two-generation approach to improving 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. 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 kindergarten. This leads to increased opportunities for success in grade school, graduation from high school and higher earnings as an adult. 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 families 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. In fact, the average cost of care for an infant at a child care center is more than $15,000 per year — greater than the cost of a year’s in-state tuition at the University of Minnesota. The cost consumes nearly 20 percent of the 2015 median household income ($80,300) for families raising children in Minnesota and about 76 percent of the 2015 federal poverty line for a family of three. 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. Lower income parents are more likely to have child care issues interfere with their ability to work. 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. An estimated $8.2 billion in wages is lost annually due to child care problems faced by families. 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 under age 13, or under age 15 if children have special needs.

To qualify to enroll in BSF, a family must have income below 47 percent of the state median income ($37,264 for a family of three) and to stay on the program once enrolled a family must have annual income under 67 percent of the state median ($53,122 for a family of three). Biweekly copayments for a family of three range from $0 to $286, depending on family income. Families can choose a child care center, a family child care home, or Family, Friends and Neighbors (FFN) care that meet certain requirements. On average, 7,520 families and 14,227 children received assistance through BSF each month in 2016. Nearly two-thirds of children receiving assistance through BSF are children under age 6, and more than half are children of color, so the program is an early childhood program that improves racial equity. A recent analysis by CDF–MN of data from the Minnesota Early Childhood Longitudinal Data System found that CCAP drives participation for children of color, especially Black children, in early childhood programs included in the systemxvi.

Severe cuts to CCAP to the tune of $250 million that were passed in the 2003 and 2005 legislative sessions have not been recaptured despite increases to funding in 2006 and 2015 ($10 million). In addition to the cuts in 2003 and 2005, the legislature made other policy changes that weakened the program including lowering the income eligibility threshold, increasing family co-payments and freezing provider reimbursement ratesxiv. Since 2003, BSF funding has decreased by 25 percent (adjusted for inflation) and now serves 4,000 fewer familiesxv. In the meantime median income adjusted for inflation has not increased significantly in the past decade, 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. More than 40 percent of children enrolled in CCAP are under age 4, a time of prime brain development when experiences make a significant difference on social and academic outcomes. Families often layer program benefits with CCAP, such as Early Learning Scholarships and Head Start, to ensure they 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 17 percent of the eligible population, or about 8,000 scholarships each yearxvii. 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 half of eligible families are served by Head Start in Minnesotaxviii.
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, flexible care for children with disabilities including those up to age 15, 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 needs, Minnesota will see long-term benefits from the far-reaching impact on family economic stability and childhood development.

**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 is currently at the 25th percentile of the 2011 market rate. From 2011 to 2015, the number of child care providers accepting CCAP has declined from more than 10,000 to about 7,300, a 27 percent decrease. While eroding reimbursement rates and increased cost of care are likely a factor, there is also a documented trend of a decline in the total number of family child care providers, particularly in Greater Minnesota, in recent years. A report on the shortage of child care by the Center for Rural Policy and Development attributed the decline to an aging child care workforce, low wages for child care providers and growth in the number of centers concentrated in the metro. 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 2016, only 21.7 percent of family providers and 28.6 percent of 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. 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. Nearly 40 percent of Greater Minnesota counties had no centers or fewer than 5 percent of centers where the provider rates were covered by the state’s maximum reimbursement rate. Additionally, 40 percent of Greater Minnesota counties had fewer than 20 percent of family child care providers whose rates were covered by the maximum reimbursement rate. With lower wages and median incomes 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.

**Range in Ages of Children Receiving CCAP, 2016**

<table>
<thead>
<tr>
<th>Age in Years</th>
<th>Birth to 1</th>
<th>2-3</th>
<th>4-5</th>
<th>6-12</th>
<th>13-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of Children</td>
<td>16.3%</td>
<td>23.9%</td>
<td>22.0%</td>
<td>37.7%</td>
<td>.1%</td>
</tr>
</tbody>
</table>

Adequate Provider Rates are a fundamental part of a family, friend, and neighbor care. Additionally, 40 percent of Greater Minnesota counties had fewer than 20 percent of family child care providers whose rates were covered by the maximum reimbursement rate. With lower wages and median incomes 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.
Family-Friendly Federal Regulations for CCAP

About half of CCAP funding comes from the Federal Child Care and Development Block Grant (CCDBG), which was reauthorized in September 2016. The reauthorization came with new rules and regulations that include many family-friendly program improvements regarding how families are eligible, application and recertification paperwork, and treatment of special populations. Adopting many of these changes is required to receive federal funding, but the Minnesota Legislature must approve the changes before they’re implemented. The changes should be funded so that their implementation doesn’t decrease the number of families served by the program or increase its waitlist. The changes include:

- Authorize continuous eligibility for 12 months families. Currently enrolled families have to fill out recertification paperwork every six months.
- Continue assistance for three months when work or education activity ends permanently.
- Allow assistance to continue during the redetermination period when income exceeds state exit level (67% State Median Income) but is below federal exit level (85% State Median Income).
- Process applications from homeless families within 5 days and prior to receiving verifications and waive education and work activity requirements for 3 months.
- Eliminate copayment increases during 12–month redetermination period.
- Eliminate employment and education schedule verification requirements for most families and allow families to choose a child care schedule that works best for them.

Policy Solutions to Make Child Care Accessible and Affordable

Children, working parents and businesses can’t wait any longer for affordable, accessible 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 5,267 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.
- Implement and fund the family–friendly rules and regulations from the reauthorized Federal CCDBG.

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.

For questions about this brief, contact Stephanie Hogenson, CDF–MN Research and Policy Director at 651–855–1175 or shogenson@childrensdefense.org. Julia Hamann, CDF–MN Research and Policy Associate, contributed to updating this brief. We thank the Annie E. Casey Foundation for its financial support that made this brief possible. The findings and conclusions presented in this report are those of CDF–MN alone, and do not necessarily represent the opinions of the Foundation.
**Glossary**

**Child Care Assistance Program (CCAP)** helps parents with lower incomes pay for child care for children under age 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. Nearly half of the $249 million in CCAP funding in 2016 came from the federal Child Care and Development Block Grant (CCDBG), while half came from the state and one percent from countiesxxv. 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 accessing 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 are often able to get an extension if there is a waiting list for Basic Sliding Fee (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 accessing MFIP and must have all parents in the household working on average 20 hours per week. Biweekly copayments currently range from $0–$286 for a family of 3. As a block granted program with limited funding, not all eligible families are able to access BSF. Funding for the program is allotted to each county; therefore, some counties have waiting lists while others are trying to find families to enroll. As of February 2017 there are a total of 5,267 families on the waiting list.

**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 percentxxvi) and the rest is state dollars. Due to limited funding, only about 52 percent of children living in poverty are served through Head Start and 6 percent are served through Early Head Start in Minnesotaxxvii.

**Minnesota Early Learning Scholarships** provide 3–and 4–year olds and their siblings living in households with incomes 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 17 percent of the eligible population, or about 8,000 scholarships each yearxxviii. 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 providing it has a three- or four-star rating by the Parent Aware Quality Rating and Improvement System. Choices 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 voluntarily get rated and receive their rating based on a one to four star rating system with each star level building on levels of training and standards requirements. Outreach and supports are available to providers to earn, maintain and improve their rating. 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 2016, 55 percent of children under age 6 accessing CCAP were enrolled in a Parent Aware rated programxxix.

**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.
Ashley’s Story: After 3 Years on Waiting List, Not Poor Enough for Child Care Assistance

Ashley is a single working mother with a 4-year-old son. When her son was an infant, she applied for CCAP in Hennepin County to help lift the heavy burden of child care costs that were more than half of her yearly income. Ashley was told that she would be put on the waiting list for BSF. While Ashely waited for assistance, she worked 40 plus hours a week between three low-wage part time jobs while also going to college part time to earn a bachelor’s degree in Human Services. She relied on her mother to help with child care because she could not afford full-time child care. Even though she was accessing other work support programs, she was barely scraping by each month.

After three years on the waiting list, Ashley was sent the paperwork necessary to access CCAP. Expecting to gain some much needed financial relief, she completed the “complicated and intimidating” application process only to be told that she no longer qualified for the program because her income was just over the limit. Ashely explained her frustration with losing CCAP access, “I was only asking for temporary help so that I can provide for my son while I try to better myself, but was told I wasn’t poor enough though I barely make ends meet.”

Soon after, Ashely decided to send her son to a Parent Aware 4-Star rated Spanish immersion preschool and applied for assistance through the Early Learning Scholarship program. Ashely received a scholarship, but she ended up having to pull her son from the preschool because he wasn’t handling the transition well. The new preschool she found was not rated so she ended up foregoing the scholarship.

This year, Ashley decided to send her son to preschool for one more year before enrolling him in kindergarten since he has a summer birthday. She found another 4-star rated program, but was told that her son would be too old to receive an Early Learning Scholarship. Ashley explained the difficult choice she had to make, “I had to choose between financially struggling for another year or sending him to school before he is ready and risk the chance that he will not enjoy learning for the rest of his academic career.”

The adjacent line graph was generated on Children’s Defense Fund–Minnesota’s Economic Stability Indicator and shows the monthly net resources as household income increases for a family living in Hennepin County with a single parent and one preschooler like Ashley’s. The data includes an estimated basic needs budget 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 what a lower income family living in Hennepin County would pay for basic needs. It also assumes that when eligible the family is accessing the following work support programs that reduce family expenses: CCAP, Supplemental Nutrition Assistance Program (SNAP), WIC, Energy Assistance, Minnesota Family Investment Program (MFIP), Minnesota Health Care Programs, Section 8 and the School Meal Program. Monthly net resources are the amount of money left after basic needs expenses minus work support program benefits are met using income after taxes. The breakeven point on the graph is when the family’s basic needs expenses minus work support program benefits equal their income. With the budget being bare bones, families like Ashley’s could use the leftover money, if any, to pay for needs not included such as debts, transportation other than to school and work, diapers, utilities besides electricity, cell phone, internet and school expenses besides meals.

The different colored lines show scenarios where Section 8 and CCAP are not accessible due to underfunding. A family of two is eligible for Minnesota Family Investment Program (MFIP) Child Care until household income is about $1,500, so that is why the blue and orange lines are the same from $0 to $1,500 in monthly income. If the family earns too much to access MFIP and they aren’t eligible for Transition Year Child Care, they would be on a waiting list for BSF. The orange line shows how the high cost of child care would leave a hole in the family’s budget without access to BSF. Just as the family is starting to be able to meet expenses through 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 $800 per month even when receiving Section 8 and $1,100 per month without Section 8. Until household income reaches $4,300 per month they are unable to meet their basic needs expenses. That means that single, working parents like Ashley would have to earn more than $20 per hour just to meet basic needs, but the median wage of available jobs in the state is $14. The blue line shows that with access to BSF, at most income levels 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, although developing assets would be difficult. Clearly, CCAP is necessary for a working family earning low wages to afford basic needs.
END NOTES


Minnesota Department of Human Services, 2012 Child Care Provider Rate Survey. Personal contact with Angie Bowman.


x Minnesota Child Care Assistance Program State Fiscal Year 2016 Family Profile, Minnesota Department of Human Services. March 2017.


xii Information provided by the Department of Human Services. Based on September 2014 waiting list reports submitted to the Department of Human Services from each county.

xiii Minnesota Management and Budget, Consolidated Fiscal Note for HF2364, March 27, 2014.

xiv Analysis completed by Children’s Defense Fund–Minnesota with assistance from the Population Reference Bureau using income data from the U.S. Census Bureau 2010–14 American Community Survey and 2014 Minnesota Child Care Assistance Program Enrollment Data from the Minnesota Department of Human Services with personal contact with Sheila Garceu.


xvi Ibid.


xix Minnesota Child Care Assistance Program State Fiscal Year 2016 Family Profile, Minnesota Department of Human Services. March 2017.


xxi Personal contact with Patina Park, Executive Director of Minnesota Indian Women’s Resource Center.

xxii Department of Human Services, Child Care Provider Market Survey, 2014. Personal contact with Elizabeth Roe.

xxiii Ibid.


xxxiv 2015 Minnesota Head Start Fact Sheet, Minnesota Head Start Association, Inc.

xxxv Ibid.


xxxvii Minnesota Department of Human Services, Minnesota Electronic Child Care Eligibility and Payment System. Personal contact with Elizabeth Roe.

xxx Children’s Defense Fund–Minnesota’s Economic Stability Indicator. The basic needs budget estimation is adjusted by county and for a low-income family whenever possible. For more information on how each basic needs expense was calculated, visit www.economicstabilityindicatormn.org/basic_needs_expenses