



BABY STEPS: More Investments Needed to Make Child Care Work for Michigan Families and Children

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With the infusion of new federal child care funds in 2018 and new direction from Congress on how states can use those dollars to improve child care services, Michigan has taken small but important steps toward making high-quality child care more affordable and available for families with low wages. However, additional federal and state investments will be needed to reach the end goal.

In 2014, Congress approved a reauthorization of the Child Care Development Block Grant (CCDBG) that was intended to make it easier for families to get child care assistance, improve the quality of care, and ensure that children’s health and safety are paramount. Unfortunately, the new legislation came without significant new funding when it was adopted.

In March of 2018, Congress began to make good on the promise of the federal reauthorization by approving a \$2.37 billion increase in funding for the CCDBG. This historic increase is being used by Michigan and other states to serve more children and families, expand eligibility for assistance, raise provider rates so families with low incomes have more options and meet the requirements of the CCDBG reauthorization.

Michigan had already begun to implement many of the requirements of the reauthorization before Congress expanded CCDBG funding, a decision that boosted Michigan’s federal child care funding by \$62.8 million each year. New federal funds have been used to cover the ongoing costs of implementing those improvements, including improved payments to providers, expanded eligibility and quality enhancements.

Child Care Is an Economic Imperative

Many Michigan parents want and need to work to support their children, but cannot find or afford high-quality child care. While child care providers are some of the lowest paid workers in the state, the cost of care can exceed a family’s rent or monthly mortgage payment, and rivals the cost of sending a young person to college.¹

Michigan employers are also increasingly reporting that the lack of reliable and affordable child care is making it more difficult to attract and retain workers for low- or moderate-wage jobs.² In short, it is affecting their bottom line.

In addition to helping parents find and keep jobs, high-quality child care can provide the boost young children need during the period of

Average Annual Child Care Costs Rival University Tuition and Average Annual Mortgage Payments in Michigan	
Center care for one infant	\$10,603
Center care for an infant and a 4-year-old	\$19,281
Home-based care for an infant and a 4-year-old	\$14,363
Public university tuition	\$12,935
Average annual mortgage payment	\$14,904

Source: Michigan Cost of Child Care, Child Care Aware

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their lives where their brains are developing most rapidly—ultimately improving their chances of succeeding in school and the workforce. Much of the architecture of the brain is developed before children enter kindergarten, and for many children, a significant amount of that time is spent in child care while their parents are working.³ High-quality child care experiences can help children learn and grow, but many parents have to choose between unreliable care of low or unknown quality, or the economic insecurity that can result from staying out of the workforce.

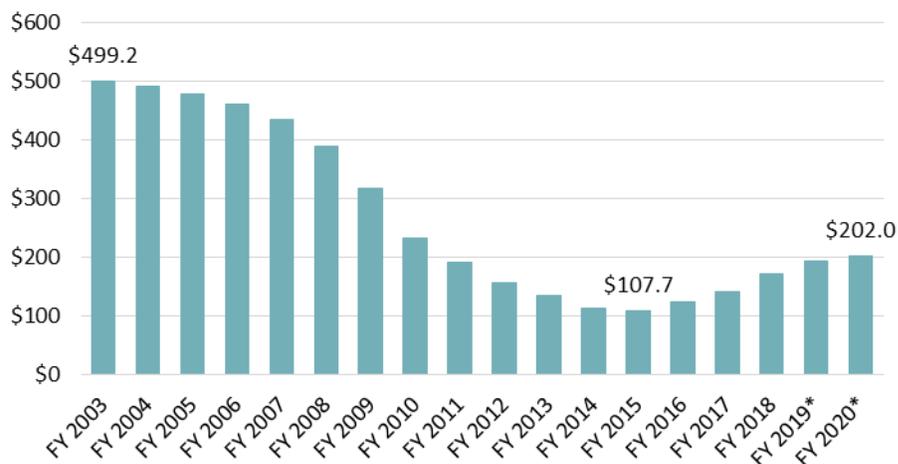
Michigan Is Taking Steps to Expand Child Care Services in Response to the CCDBG Reauthorization and Federal Funding Increases

Prior to the reauthorization of the CCDBG, Michigan ranked among the lowest states in the country in its investments in child care for families with low and moderate incomes—even returning federal child care funds because of restrictive state policies that prevented families from getting the care they needed to work and support their families. In 2003, Michigan’s spending on child care was the 11th highest in the nation; by 2013, the state had dropped to the 11th lowest in the country.⁴

As a result, the number of families with low wages receiving help with child care costs tumbled in Michigan. In 2003, over 62,413 families in the state received aid in meeting child care costs; by 2015, the number of families helped had fallen to a low point of 16,733—a decline of 73%. The reduction in the number of families able to access subsidized child care was mirrored by a drop in total state and federal child care funding, from \$499 million in 2003 to a low point of \$108 million in 2015.

The downward slide in the number of families receiving child care assistance and related spending began to reverse when Michigan put in place a number of funding and policy changes, many of which were required under the CCDBG reauthorization and later

AFTER A DECLINE OF 78% BETWEEN 2003 AND 2015 TOTAL FEDERAL AND STATE CHILD CARE SPENDING HAS BEGUN TO REBOUND (Dollars in Millions)



*FY 2019 and 2020 based on May 2019 Consensus Revenue Estimating Conference projections
Source: House Fiscal Agency

supported by increased federal funding. Michigan receives an additional \$62.8 million in CCDBG funds each year from the expansion in federal funding initially passed in 2018. Since receiving the expanded funding, Michigan made three policy and funding changes in the 2019 state budget.

- First, the state moved away from hourly payments for subsidized child care to a biweekly block payment, a change meant to stabilize small child care businesses and permit them to accept more children with subsidies. The cost of the payment shift was \$15 million in federal CCDBG.
- Second, the Legislature provided \$24.6 million in CCDBG funding to cover increasing child care subsidy caseloads and costs resulting from the implementation of provisions of the reauthorization, including a higher exit eligibility level, continuous one-year eligibility and increased provider rates.
- Third, lawmakers approved a \$2.5 million increase in T.E.A.C.H. scholarships for child care providers.

Michigan began implementing many of the new requirements in the CCDBG reauthorization before federal funding was expanded. The improvements turned the tide on long-term declines in the number of families helped with child care costs, and increased child care spending in Michigan. In the 2018 and 2019 budget years, Michigan received a total of \$125.6 million in expanded CCDBG funding. States have two years to obligate the funds and a third year to spend them, so 2018 CCDBG funding expansions must be obligated by September 30, 2019 and spent by September 30, 2020. By latest estimates, Michigan will have between roughly \$80 and \$100 million in carryforward funding from the CCDBG funding expansion by the end of the 2019 budget year. With Michigan's 2020 budget still under negotiation, how Michigan will meet those deadlines is still uncertain.

Fiscal analysts predict that the child care policy changes already in place, coupled with the eligibility and rate increases proposed by the governor for the 2020 budget, would deplete any CCDBG surplus by the end of the 2021 budget year.⁵ How quickly the state will actually spend down the CCDBG surplus depends on a number of factors, including actual caseload growth and spending, as well as any changes in policy approved as part of the final 2020 budget deal.

Michigan has made the following changes to its child care program since passage of the CCDBG reauthorization in 2014:

Improved payments for child care providers accepting children with subsidies: Michigan lawmakers approved several rate increases for child care providers, although payments remain below the 75th percentile of market rate—the federal standard for affordability.⁶ Adding to the financial burden on parents, when state child care subsidies fall short of what providers charge, three-quarters of child care providers in Michigan charge parents the difference.⁷

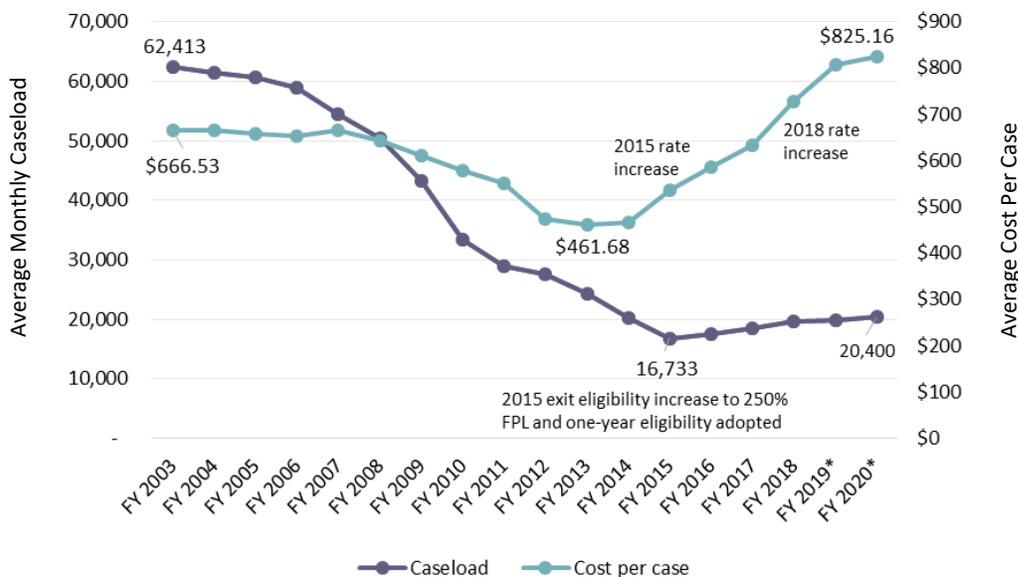
- **Rate increases:** As a tool for encouraging improvements in child care quality, Michigan began a series of rate increases for child care providers with more stars in the state's five-star quality rating system—Great Start to Quality (GSQ). Rate changes were approved in both the 2014 and 2015 budget years, with higher rates provided to higher-quality providers.

The last rate increase approved by the Legislature was in the 2018 state budget. Then-Gov. Rick Snyder proposed an increase of \$27.2 million (\$8.4 million in state funds) to move child care provider rates closer to the federal standard of the 75th percentile of market rate, which would give families the resources they need to access 75% of the licensed care in their community. The Legislature ultimately approved \$19.4 million (\$8.4 million in state funds) to allow for increases ranging from \$0.25 per hour to \$0.75 per hour, depending on the number of stars in the state’s quality rating system.

For 2020, Gov. Gretchen Whitmer recommended \$16.4 million in federal CCDBG for a rate increase for child care providers beginning January 1, 2020, allowing an additional \$0.20 and \$0.50 per hour depending on the age of the child and the GSQ star rating of the provider. The Senate agreed with the governor, but the House rejected any additional rate increases for child care providers. Final decisions on the 2020 budget are expected to be made this summer—in advance of the beginning of the 2020 fiscal year on October 1, 2019.

- New payment policies:** In 2019, \$15 million was provided to update the state’s child care payment policies to comply with the CCDBG reauthorization requirement that state payment practices reflect the generally accepted practices for all child care providers, which is charging by the week or day.⁸ Michigan was reimbursing providers on an hourly basis, making it more difficult for many to accept children with subsidies. Since March of 2019, payments are provided in biweekly blocks based on the number of hours in care.

CHILD CARE RATE INCREASES AND POLICY CHANGES CONTRIBUTE TO AN INCREASE IN THE COST PER CASE AND HELP FUEL GROWTH IN SPENDING



*FY 2019 and 2020 based on May 2019 Consensus Revenue Estimating conference projections
Source: House Fiscal Agency

Rate increases contribute to the overall cost per case in child care—a major driver of child care spending. In addition, because Michigan provides higher rates to higher-quality providers based on the state quality rating system, as quality improves, costs increase. In Michigan, the average monthly cost per case for child subsidies fell to a low of \$461.68 during the 2013 budget year, rising to an estimated \$825.16 per month in the 2020 budget that is currently being debated by the Michigan Legislature—an increase of 79%. During this same time period, the number of families receiving child care assistance began to rise more slowly, but still falls below 2013 levels.

Expanded eligibility for child care assistance: Michigan expanded eligibility for child care subsidies, adopted a more generous “exit” eligibility income level to ensure that families can keep some child care assistance if their pay increases, and adopted one year continuous eligibility to ensure that there are fewer work and child care disruptions for families with fluctuating income.

- **Higher exit eligibility:** In response to the CCDBG reauthorization requirement that states ensure that families have stable child care through a gradual reduction in child care assistance, Michigan established a graduated “exit” eligibility for child care assistance at 85% of state median income (approximately 250% of the federal poverty level) in July 2015. Families seeking child care assistance must initially qualify at the state’s “entry” eligibility level (currently 130% of poverty), but are able to continue to receive some child care assistance until they reach 85% of state median income if they continue to meet eligibility criteria. Prior to the establishment of the graduated exit eligibility, a single mother’s child care costs for two children could rise from approximately \$2,900 per year to over \$18,000 if she earned a small pay raise.⁹
- **One year of continuous eligibility:** Also beginning in 2015—and in response to the CCDBG reauthorization—Michigan adopted 12 months of continuous eligibility for child care assistance.
- **Increased entry eligibility:** At 39% of median income, or roughly 120% of the federal poverty line, Michigan’s initial income eligibility threshold for child care was one of the lowest in the country in 2016.¹⁰

In 2017, \$7.7 million in CCDBG funds was used to increase Michigan’s entry eligibility threshold from approximately 120% of poverty to 125%. In addition, a half-year of one-time CCDBG funding of \$8.1 million was provided to expand half-day subsidized child care to all children ages 0-3 in the city of Flint regardless of income. This funding was part of the state’s response to the widespread lead exposure of children in Flint.

In 2018, \$5.5 million in federal CCDBG funding was allocated to increase the entry eligibility threshold from 125% of poverty to 130% of poverty—where it remains today. For 2020, the governor proposed \$13.6 million in federal CCDBG funds to increase the entrance eligibility threshold from 130% of poverty to 140% beginning January 1, 2020. The Senate rejected the eligibility increase, but the House included a placeholder for further discussion of raising the eligibility level to 135% of poverty.¹¹

Improvements in quality: Michigan has continued to make progress in its efforts to improve child care quality. Approximately half of Michigan child care providers participate in the state's quality rating system, and 85% of the rated providers earn three stars or more.¹² In addition to providing tiered reimbursements to providers as an incentive to move up the Great Start to Quality rating system, the state has increased the number of child care consultants/inspectors; implemented federal requirements on health and safety, including oversight of license-exempt family, friend and neighbor child care providers; expanded training and scholarship opportunities; and implemented new federally required background checks and fingerprinting.

In the current budget year (2019), Michigan is spending \$30.4 million on CCDBG quality initiatives and \$9.2 million on infant and toddler quality improvements.¹³ Included are:

- Resources for local Great Start Collaboratives and Great Start Parent Coalitions (\$1.1 million).
- Funding for the Great Start to Quality rating system, provider training, training and technical assistance for local Great Start Collaboratives and Parent Coalitions, support and oversight of local Resource Centers, and monitoring of license-exempt providers (\$7.9 million).
- Child care licensing activities, including child care consultants in the field (\$17.1 million).
- Scholarships and workforce activities through the T.E.A.C.H. program (\$3.5 million), as well as scholarships supporting infant/toddler providers (\$1.5 million).
- Training for infant/toddler providers, including learning communities and infant/toddler consultants (\$3.6 million).
- Early Head Start wrap-around funds to ensure full-day, full-year high-quality programs (\$1.6 million).

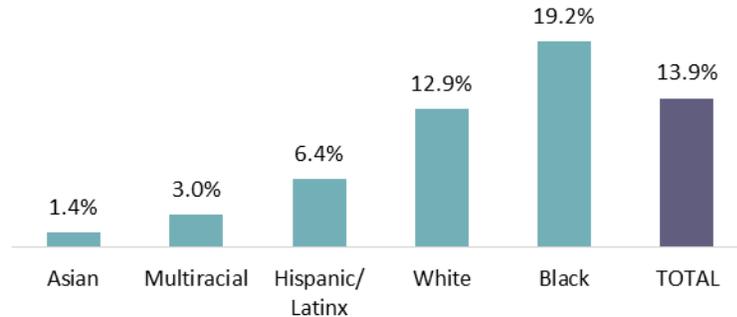
We Are Still Far From Meeting the Child Care Needs of Families

Over nearly a decade, the percentage of all children in Michigan ages 0-12 who received subsidized child care dropped from 4.2% in 2009 to 2.3% in 2018.¹⁴ With new federal funding and direction, Michigan has started to turn the corner on investments in high-quality child care that families, children and business owners need to thrive. Yet, high-quality child care remains out of reach financially for many Michigan families, and there are areas of the state where little or no high-quality care is available or affordable.

For some racial and ethnic groups, including Latinx and Asian communities in Michigan where there is a larger share of immigrant families, access to subsidized child care is particularly low. Only 1.4% of Asian children, 3% of multiracial children, and 6.4% of Latinx children who are potentially eligible for subsidized child care are receiving that assistance.¹⁵ Further, more than 4 of every 10 people in Michigan live in "child care

ASIAN, MULTIRACIAL AND LATINX CHILDREN ARE LESS LIKELY TO ACCESS SUBSIDIZED CHILD CARE

Percent of Potentially Eligible Children Served in Michigan by Race and Ethnicity (2016)



Source: Center on Law and Social Policy

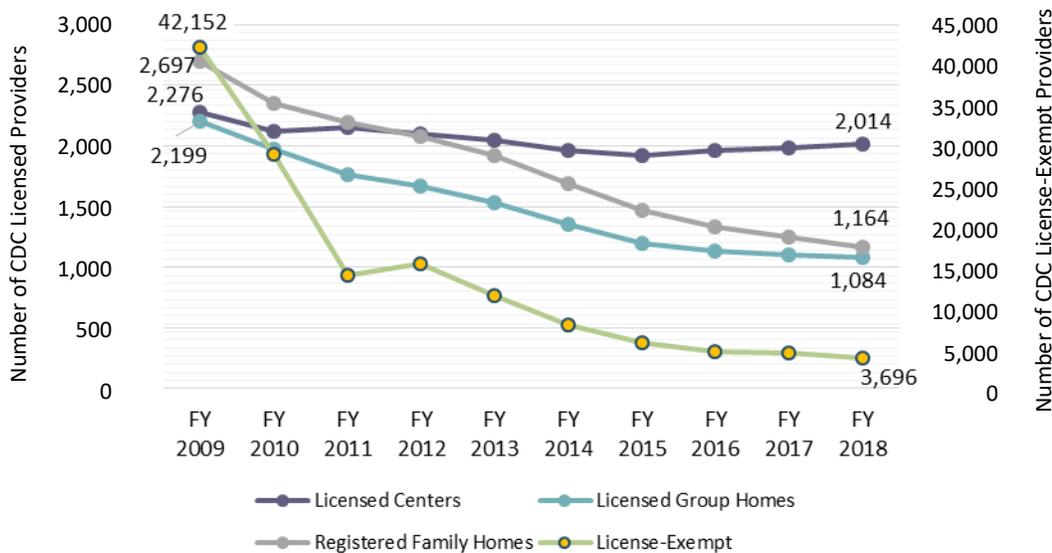
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deserts,” defined as any census tract with more than 50 children under age 5 that contains either no licensed child care providers or so few options that there are more than three times as many children as licensed child care slots.¹⁶

There are also wide differences in the availability of child care for families needing evening or weekend care, or child care for infants and toddlers. Ten Michigan counties do not have any licensed slots at child care centers that serve children younger than 30 months.¹⁷ And, parents who do not work a traditional Monday through Friday workweek—including evenings, weekends, overnights or schedules that vary from week to week—are likely to find it very difficult to find child care and receive subsidies. Only 16.1% of child care providers in Michigan indicate that they offer care after 6 p.m., 8.6% on weekends and 7.3% overnight.¹⁸

Advocates and parents have raised concerns that child care is increasingly hard to find in their communities, including a reduction in the number of home-based child care providers, many of whom have traditionally cared for infants and toddlers.¹⁹ The largest decline overall has been in the number of license-exempt family, friend and neighbor providers receiving subsidies, which dropped by roughly 90% between 2009 and 2018. This decline accelerated when minimal training requirements were put in place for license-exempt providers, along with a rate cut for providers not meeting them. Rate increases and the move to biweekly block payments are expected to help stabilize the child care market, but additional investments will be needed to meet the needs of young children and their families statewide.

NUMBER OF HOME-BASED AND LICENSE-EXEMPT PROVIDERS CARING FOR CHILDREN WITH STATE SUBSIDIES HAS DECLINED MOST STEEPLY



Source: House Fiscal Agency

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A Federal/State Partnership Is Essential to Provide the Child Care Services Needed to Fuel the Economy

The growing awareness of the importance of child care for children, business owners and the economy—coupled with new direction and investments at the federal level—provide Michigan with a unique opportunity to create a child care system that works. However, the opportunity will be lost if there isn't a commitment to continue to invest in child care at both the federal and state levels.

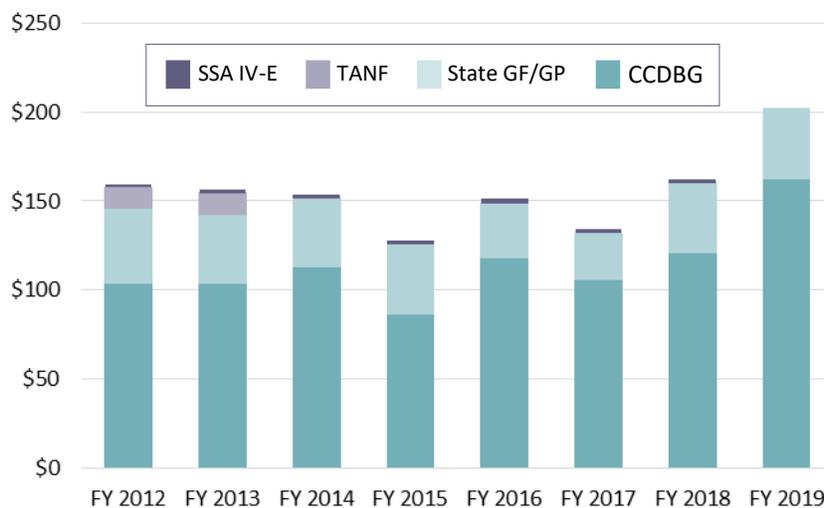
Without significant increases in federal CCDBG in the decade between 2007 and 2017, the number of children and families benefiting from child care assistance fell steeply. During that time, Michigan continued to keep its eligibility levels very low, denying assistance to many families with low incomes. Because Michigan allocated its CCDBG funds based on projected caseloads, and simultaneously maintained one of the lowest income eligibility thresholds in the country, it was one of a handful of states that returned CCDBG funds to the federal government. Michigan has never maintained a waiting list for child care assistance—in part because of very low eligibility levels and related investments that suppressed both the demand and the supply of care—so less is known about the true level of need.

Further, as caseloads continued to fall, Michigan began to shift Temporary Assistance for Needy Family (TANF) funding away from child care into other state priorities. When TANF was established in 1996, the law allowed states to transfer up to 30% of their

TANF block grants directly to child care programs that follow federal CCDBG requirements, or use TANF directly for child care. In the 2012 and 2013 budget years, Michigan used \$11.8 million in TANF funds for child care, which represented approximately 7.5% of total child care spending.²⁰ By 2014, Michigan was no longer using TANF for direct child care services or quality improvement, although some TANF funds were used for eligibility determination and related technology in the Department of Health and Human Services. Many other states continued to bolster their CCDBG funds with TANF. In 2017, of total TANF funding (including direct TANF expenditures and maintenance of effort), 16% of TANF funds were used for child care nationwide, compared to only 2% in Michigan.²¹

Michigan has also committed few state general funds to child care. State funding for child care fell from approximately \$42 million in the 2012 budget year to \$39.4 million in 2019, dropping as low as \$25.8 million in 2017.

MICHIGAN IS PRIMARILY RELIANT ON FEDERAL CCDBG FUNDS FOR CHILD CARE ASSISTANCE (Dollars in Millions)



Source: House Fiscal Agency

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Next Steps for Child Care in Michigan

To build a child care system that works for parents and provides children with an environment where they can learn and develop optimally, additional investments will be needed at the federal and state levels. In addition to further expansions in federal CCDBG funding, Michigan must redirect TANF funds to child care and begin to invest additional state funds in child care access and quality.

The blueprint has been provided through the reauthorization of the CCDBG, which calls for additional health and safety protections, quality improvements, training and

professional development, and prioritizes families in areas of high poverty and unemployment that do not have access to high-quality child care. To fully realize the laudable goals of the law, Michigan must step up its investments in child care.

The League includes in its priorities some initial steps state policymakers could take, including:

- Increase child care payments to providers to ensure that parents can afford 75% of the child care in their community—the federal guideline for affordability.
- Incrementally increase the entry income eligibility level for child care assistance toward the federal cap of 85% of state median income.
- Establish grants and contracts with providers to increase high-quality care in areas of shortage such as infant and toddler care, care for parents working evenings and weekends, and care for children with special needs.

Endnotes

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