



CHILD CARE FINANCING REFORM IS A CRITICAL NEXT STEP FOR MICHIGAN FAMILIES AND THE ECONOMY

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The worldwide COVID-19 crisis raised awareness of both the importance of child care to the state's economy and the fragility of child care businesses. Child care providers were struggling to make ends meet for their businesses long before COVID-19 shut many down, and those that remained open could manage only with an infusion of federal relief funds. Like many small businesses in the state, Michigan's child care providers are still in survival mode. Approximately 65% of the state's child care providers are now back in business, but many fear that they will be unable to remain open without additional and ongoing support.

To address the COVID-19 crisis, Michigan took a number of short-term steps to help providers stay afloat, including allowing providers to bill for subsidy payments for currently enrolled children whether or not those children were still attending, were absent or the facility was closed; an expansion of services for school-age children; and allowing providers to bill for school-age children who are attending school virtually. In addition, grants were made available through a Child Care Relief Fund to cover providers' basic operating costs during the public health crisis, and federal CARES funding was provided for rate relief for parents. While these were significant efforts to stabilize child care during a crisis, they are all temporary, and do not address the underlying deficiencies and inequities in how Michigan finances child care.

The good news is that there is growing consensus that child care is at the foundation of economic growth. Business leaders, community leaders and policymakers from both sides of the aisle understand that child care affects the state's bottom line. And, the evidence is in from researchers and scientists that children's earliest learning experiences affect their future success as students and workers. Without affordable, reliable and high-quality child care, parents cannot work to support their families, businesses cannot attract and retain workers, and children will not be given the tools they need to succeed.

Building a stronger child care sector in Michigan requires a fresh look at how the state finances child care, and the commitment to think creatively and act boldly to build the child care system that parents need to work and children need to thrive. Building a child care system that works for families and Michigan's economy will take an infusion of new funding, as well as the repurposing of revenues already available.

At the core of child care reform in Michigan must be a strong focus on equity—in recognition of the impact of racism on economic security in communities of color, as well as the high number of child care "deserts" in many rural communities. Child care workers are disproportionately women, including many women of color who receive very low wages and seldom have access to benefits like health insurance or paid sick time. And, even in a very low-paying field, African American and Latinx workers are more likely to be in lower-level positions in child care programs, and after accounting for education levels, paid less than their white peers.¹ Families of color looking for child care also experience inequities related to cost and the supply of high-quality care in their communities. We can't fix Michigan's child care system without tackling those inequities head-on.

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Bold Changes in the Financing of Child Care Are Urgently Needed

The current financing system for child care doesn't make sense and doesn't work for child care providers, parents or children. Unlike K-12 public schools, child care is "funded" predominantly by parents and underpaid child care professionals, and is not considered a public good.

"A minimum wage worker in Michigan would need to work full-time for 29 weeks, or from January to July, just to pay for child care for one infant."

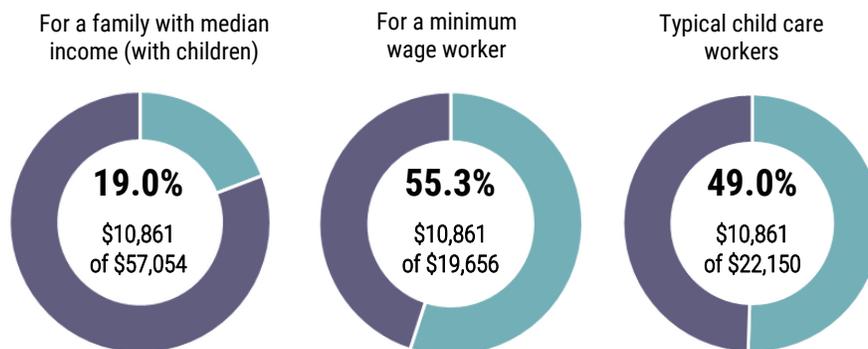
Source: Economic Policy Institute

The COVID-19 crisis made this very clear. Child care providers closed their doors if they weren't serving essential workers, and those that have reopened are facing increased costs and low enrollment in part because of parent concerns about safety. In the absence of significant new federal and state investments, Michigan's child care businesses could face ongoing job and income losses, with a potentially devastating impact on the supply of child care for working families.

- **Not affordable for families:** In Michigan, child care for one infant consumes 19% of the income of a family at the state's median income, and 55% of income for a parent working at minimum wage. Care for children often exceeds the cost of mortgage or rental payments, and rivals college costs. Families with two children in care face even bigger hurdles. A family with an infant and a 4-year-old in care can expect to pay \$19,751 in one year—more than one-third of the income of a Michigan family at median income, and nearly 50% higher than the average annualized rent in the state.²

How Big a Bite Does Child Care Take?

Infant care costs as a share of income in Michigan



Average cost of infant care in Michigan **\$10,861/year**

Source: *The Cost of Child Care in Michigan*, Economic Policy Institute (Updated July 2019)

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- **Not sustainable for child care professionals:** Child care is unaffordable for many parents, but not because child care workers are earning a living wage. Early childhood educators are some of the lowest paid professionals in Michigan, earning less than fast food cooks, laundry workers and animal caretakers.³

Child care providers that accept children with state subsidies are paid for only a fraction of the true cost of the care and education they provide. Federal law allows states to set

Michigan's Early Educators Are Struggling

- Early educators in Michigan with bachelor's degrees are paid 22% less than their colleagues in the K-8 system.
- Almost one in five (19%) have incomes under the poverty line—nearly twice that of other workers (11%).
- Half of child care providers are themselves eligible for some type of public assistance, and few have access to benefits like healthcare and paid sick leave.

Source: Economic Policy Institute

their own payment rates, with the goal of the 75th percentile of market rate—meaning that families should be able to purchase 75% of the care in their area. Michigan's child care payments fall below market rate for most children and settings, but more importantly, because of the state's historically low payments for child care subsidies, and the incredibly low wages paid to child care professionals, the market rate is a faulty indicator of the true cost of care.

Michigan's Investment in Child Care Has Declined Over the Last Decade

- **Few families were eligible for assistance:** Michigan has had one of the lowest initial income eligibility thresholds for child care in the country, leaving many families without any chance of finding affordable care. With the adoption of the 2021 state budget, lawmakers and the governor have increased the eligibility threshold to 150% of the poverty level beginning January 1, 2021, an important step forward that could serve approximately 5,900 children statewide, including an estimated 1,336 infants and toddlers, but still leaves many families unable to afford child care.⁴ The national median initial income eligibility threshold is 180% of the poverty level.⁵

In 2016, an estimated 211,613 Michigan children were eligible for a child care subsidy in Michigan, yet the state was assisting only 13.9% of those potentially eligible. Participation rates were highest for Black children (19.2%) and White children (12.9%), and lowest for Latinx (6.4%) and Asian American children (1.4%).⁶ State policies and practices can create barriers to access to child care subsidies. For example, with Michigan's low initial eligibility threshold, parents seeking help with child care costs are in low-paying jobs, many of which are not during the standard work day. Research shows that as many as half of all Latinx parents with low incomes work nonstandard hours, including evenings and weekends, yet the state subsidy program has not incentivized off-hours care, so the supply of regulated care during those hours is limited.⁷

- **Child care subsidy payments to providers have remained low, and are well below the inadequate, depressed market rate used as a guide.** The state reimburses providers at rates that are so low that approximately half of the state's child care workers are themselves eligible for some form of public assistance.⁸ Nationwide, 60% of child care workers whose families received public assistance worked full time, and participation rates were higher among the families of Black, Latinx and multiracial child care workers.⁹ Low subsidy payments contribute to a high level of fiscal instability in child care businesses, and can suppress both the supply and quality of child care, particularly for infants and toddlers where the cost of care is highest.

- **Parents and child care businesses report barriers to receiving child care subsidies.** Michigan’s Prenatal to Three (P3) Collaborative, funded by the Pritzker Children’s Initiative, conducted numerous focus groups around the state when developing its early childhood policy agenda.
 - *Among the barriers raised by parents* were the lack of information about the state’s child care subsidy or eligibility criteria; the complexity of the application process, including high caseloads for eligibility specialists; the shortage of slots for infants and toddlers, as well as for care during evenings and weekends; the inability to afford high-quality care, including copays and fees; transportation needed to access high-quality child care; and policies that require parents to comply with child support requirements.
 - *In addition to low rates, providers* were concerned about the need for contracts or other funding mechanisms that can cover the higher cost of caring for infants and toddlers; the lack of resources to manage paperwork and administrative time; the lack of supports for home-based child care providers as well as license-exempt family, friend and neighbor providers; and difficulties in maneuvering the licensing and start-up process.

Michigan dedicated so few of its own resources to child care that it led the nation in the amount of unspent federal child care funds that were returned, and failed to meet the child care needs of thousands of working families.

There are three major sources of funding for child care assistance in Michigan, and Michigan has failed to make child care a priority for the expenditure of all three. Prior to the COVID-19 crisis, Michigan was set to spend \$217 million for child care in 2020, including \$177 million in federal funding for the Child Care Development Fund (CCDF), \$40 million from the state’s General Fund (as match for federal funding), and no federal Temporary Assistance for Needy Families funding.

Child Care Spending in Michigan 2019-2020 Budget Year (Pre-COVID-19)		
	2020 Budget	Percent of Total Child Care Spending
Federal CCDF	\$177 million	82%
State General Funds	\$40 million	18%
Federal TANF	\$0.0	0%
TOTAL	\$217 million	100%

Source: House Fiscal Agency

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1. **Michigan returned federal Child Care Development Fund (CCDF) dollars:** Between the 2014 and 2017 budget years, Michigan failed to provide adequate state matching dollars to draw down all of the federal child care funding it was entitled to. The low point for Michigan spending on child care came in 2015, when Michigan spent only \$107.7 million for child care—the same year that it returned \$27.9 million in unspent funds to the federal

government. Michigan now has the sad legacy of having led the country in returning unspent federal child care funds—dollars that were intended for Michigan families, but were redistributed to other states, even as many Michigan parents struggled to find affordable child care so they could work to support their families.¹⁰

Funding for the CCDF comes from both the Social Security Act and the Child Care and Development Block Grant (CCDBG). For the portion of funds the state receives from the Social Security Act, there are both state matching and maintenance of efforts requirements. Federal funding from CCDBG, which are discretionary funds that require no state match, has increased in the last few years, including an annual expansion of approximately \$63 million per year for Michigan following Congressional approval of a \$2.4 billion nationwide increase in the CCDBG, along with \$130 million in CCDBG federal relief and \$125 million in federal CARES funds to support child care during the COVID-19 public health crisis.

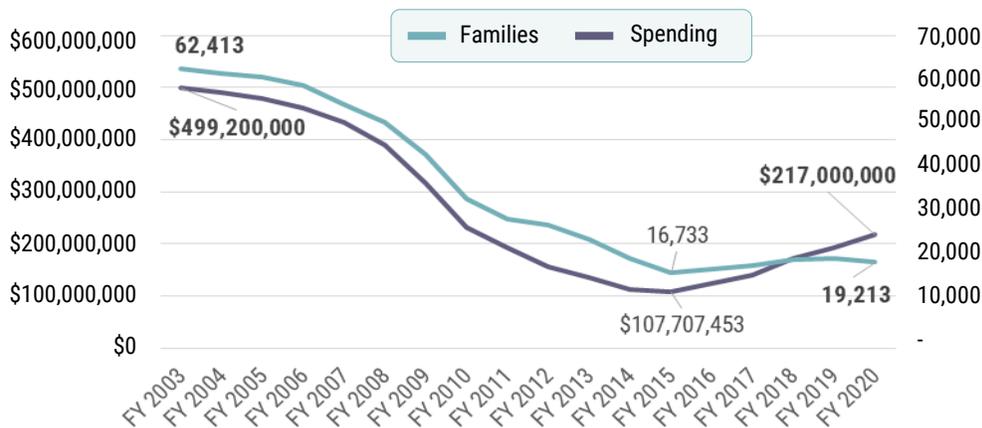
Michigan reached the point of returning needed federal dollars in part by restricting eligibility and payments to child care providers. The number of families receiving child care subsidies in Michigan fell 69% between 2003 and 2020—in large part because the state excluded many families earning low wages from its child care subsidy program by adopting one of the lowest income eligibility thresholds in the country, and offered such low payments to child care providers that the supply of affordable high-quality care dwindled—particularly for infants and toddlers. During that same period child care spending fell from \$499.2 million to \$217 million, a decline of 57%.

Child Care Development Funds Left Unspent in Michigan And Reallocated to Other States (Dollars in Millions)			
FY 2014	FY 2015	FY 2016	FY 2017
Idaho: \$9.9	Michigan: \$27.9	Michigan: \$12.9	Tennessee: \$21.0
Michigan: \$9.3	Idaho: \$7.6	Idaho: \$8.2	Michigan: \$17.0
Maine: \$4.3	Kansas: \$3.5	Kansas: \$4.0	Kansas: \$5.6
Kansas: \$3.7		Tennessee: \$1.9	Idaho: \$3.7
U.S. Total: \$27.2	U.S. Total: \$33.9	U.S. Total: \$27.1	U.S. Total: \$47.3
Total Released by Michigan FY 2014-2017: \$67.1 million			

Source: CCDF Expenditures Overview for FY 2014-2017, Office of Child Care, and the Michigan House Fiscal Agency

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The Number of Families Receiving Child Care Subsidies Has Dropped Along with Spending (2003-2020)



Source: CDC Caseload and Spending Trends: FY 2003-2020

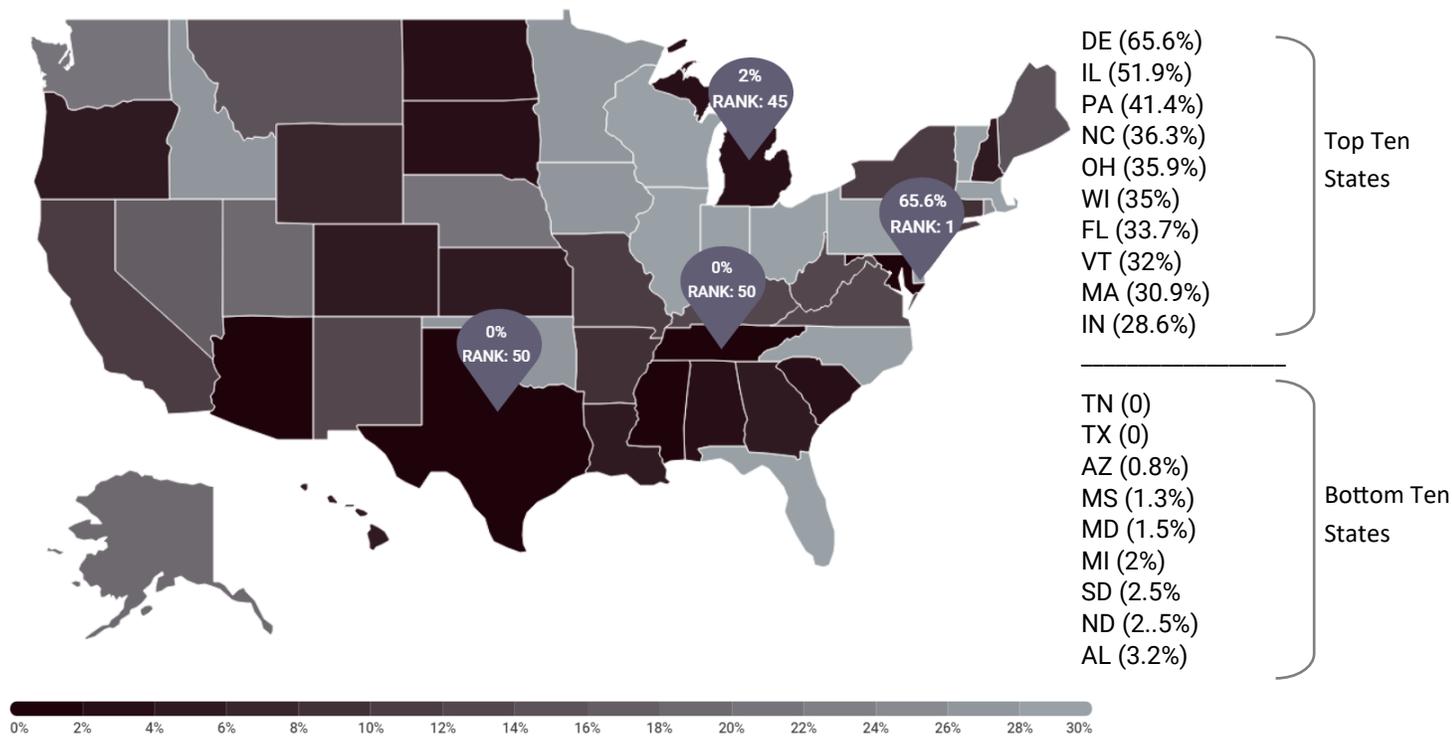
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As part of its budgeting strategy, Michigan uses a caseload consensus process for determining estimated child care subsidy costs—a process of estimating revenues and spending targets based on consensus between the Michigan House of Representatives, the Michigan Senate and the State Budget Office. Using the consensus caseload for the child care subsidy for the upcoming budget year, the Michigan Legislature appropriates its available federal and state child care funds based on a demand and supply for child care that had been suppressed by restrictive state policies and payments. By relying on projected caseloads and not planning for the full use of federal child care funds, Michigan lost out on much-needed federal assistance.

2. **Michigan has also been at the bottom of the states in its dedication of federal Temporary Assistance to Needy Family (TANF) to child care.** Between 2011 and 2021, Michigan did not dedicate any federal TANF block grant dollars to the child care subsidy, although a small amount of TANF was transferred to the Michigan Department of Health and Human Services (MDHHS) to help support the workers that determine child care eligibility in local offices. In a positive move forward, the final 2021 budget includes \$27.6 million for an increase in the entrance income eligibility threshold, including \$12 million in TANF—the first TANF investment in the child care subsidy in a decade.

Under federal law, states can redirect up to 30% of their TANF block grant dollars to the Child Care Development Block Grant (CCDBG), and spend them on child care under CCDBG regulations. In 2018, Michigan was sixth from the bottom of the states in using TANF for child care—spending only 2% of its TANF budget on child care, compared to a national average of 17%.

At just 2%, Michigan ranks 6th from bottom nationally for TANF spending on child care (2018)



Source: Center on Budget and Policy Priorities

3. **Michigan is not investing significant state funds in child care.** Although Michigan has been drawing down all available federal Child Care Development Fund dollars since 2018, it does not spend more than the minimum state funds needed as match for federal child care dollars. Prior to COVID-19, the Michigan budget included only \$40 million in state funds for the child care subsidy—the amount required to draw down federal funding.

The Failure to Invest in Child Care Threatens Local Economies

Even prior to the COVID-19 crisis, funding to communities for needed child care services had dropped dramatically. Between January 2008 and January 2020, monthly child care expenditures statewide fell by 50%—despite policy changes that caused child care expenditures to begin to climb slowly, including a small increase in the “entry” eligibility threshold for child care from 120% to 130% of the poverty level, a change in the “exit” eligibility level for child care to 250% of the poverty level, and increased child care payments based on the number of stars providers earn in the state’s quality rating system.¹¹

Child Care Reductions Result in Losses in Funding for Communities <i>(Child Care Subsidy Monthly Expenditures: Selected Counties)</i>				
				% Reduction
	Jan-2008	Jan-2014	Jan-2020	2008-2020
Wayne	\$15,100,496	\$2,488,905	\$6,615,361	-56.2%
Oakland	\$2,478,790	\$588,054	\$1,265,798	-48.9%
Macomb	\$2,057,449	\$507,613	\$1,232,074	-40.1%
Kent	\$2,737,270	\$567,364	\$1,038,304	-62.1%
Genesee	\$4,167,470	\$779,674	\$1,721,315	-58.7%
Washtenaw	\$1,011,730	\$230,517	\$374,279	-63.0%
Ingham	\$1,240,108	\$269,243	\$682,584	-45.0%
Kalamazoo	\$1,054,840	\$271,332	\$472,801	-55.2%
Saginaw	\$1,452,130	\$378,924	\$1,015,586	-30.1%
State Total	\$41,693,951	\$9,002,265	\$20,689,821	-50.4%

Source: Michigan Department of Health and Human Services

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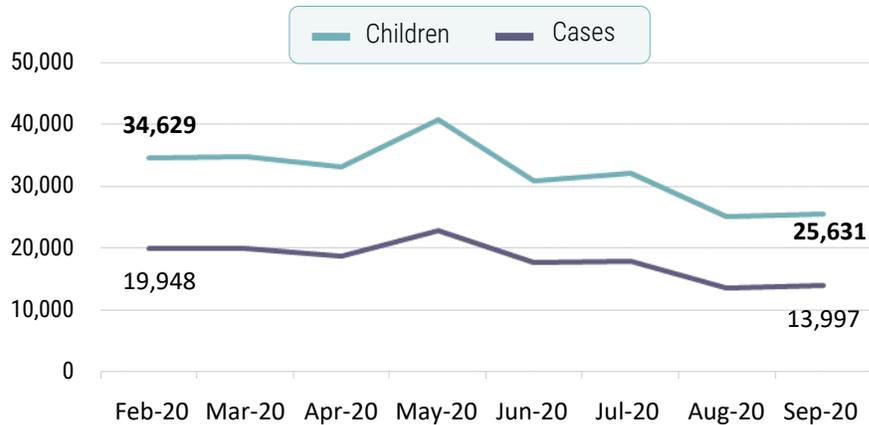
Since the beginning of the COVID-19 crisis, the number of families and children receiving child care subsidies has been falling. In March 2020, 34,837 children benefited from the subsidy. By September, only 25,631 children were receiving a child care subsidy—a decline of 26%. While the long-term impact on local child care businesses of the COVID-19 crisis is still not entirely known, Michigan business owners are starting to feel the pinch as they reopen and are unable to attract and retain workers in low- to moderate-wage jobs because of disruptions in Michigan’s child care market.

Next steps for child care in Michigan

To create a high-quality and thriving child care market that meets the needs of working parents and their children, the state will need to put in place a financing plan for child care that supports adequate wages for child care professionals and expands the supply of high-quality care for infants and toddlers.

- **Target child care resources to communities with the greatest need.** At the core of the state’s financing plan must be an analysis of racial, ethnic, and economic equity in access to high-quality child care, and in wages and other business supports for child care providers. Michigan must collect and use data—disaggregated by race, ethnicity and income—to target child care resources to the areas and families with the greatest need and the least access, with a focus on expanding access to high-quality care for infants and toddlers. In addition, the state should engage parents

Fewer Families and Children Receive a Child Care Subsidy as the COVID-19 Crisis Continues



Source: Michigan Department of Health and Human Services

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and providers in a review of child care policies to determine if they promote or constrain access to high-quality child care for families of color, or parents in high-poverty communities in both urban and rural areas.

- **Advocate for a significant increase in federal funding for child care.** The current financing system for child care is unsustainable because of its reliance on parent fees and an underfunded public subsidy. The status quo will perpetuate the problems being felt by families whose wages cannot cover child care costs and are therefore forced out of the workplace or required to work fewer hours. It will also make it increasingly difficult for Michigan employers to attract and keep employees. It will take a significant infusion of federal funds to help states reform child care, at an estimated additional cost of \$50 billion nationally.
- **Develop and publish an annual comprehensive child care system financing plan.** Michigan needs greater transparency on how it uses available funds for child care, with a detailed annual report for the public and policymakers that spells out child care spending from all federal and state sources, including funds for the child care subsidy, child care quality improvements, licensing and regulation, professional development for providers, administrative costs, and other child care pilot programs or initiatives.
- **Ensure that all available federal funds are spent.** Michigan needs to ensure that it never again returns federal Child Care Development Fund (CCDF) dollars by augmenting the caseload consensus process with a broader funding plan for child care that comprehensively allocates all available state and federal funding.
- **Redirect TANF and state General Funds to build a stronger child care sector in Michigan.** Michigan is falling far below the national average in its dedication of TANF funds to child care, and provides only the minimum in state General Funds needed to draw down federal dollars. To create the child care system families and children need, Michigan will need to reimagine how it spends its current child care funding, and expand funding dedicated to child care through other sources, including TANF and state funds.

- **Improve child care quality and stabilize child care businesses by establishing child care provider rates that reflect the true cost of care, including adequate wages for child care workers.** When the market rate approach to child care payments was first adopted in the 1980s, it was an attempt to ensure that families receiving subsidies could purchase 75% of the care available in their area. Years later, it is clear that it was the wrong approach, especially for infants and toddlers and families in lower-income communities, and has done little to improve access to high-quality care for families using subsidies.

Market prices vary widely across the state and are more reflective of the incomes of families in the area than the actual cost of running a child care program. In areas where incomes are generally lower, prices are also suppressed, and providers cannot earn enough to improve the quality of their programs. In addition, by providing reimbursements that are only a fraction of a suppressed market rate, a disincentive was created for providers to accept infants and toddlers because the cost of care is higher.¹²

In addition to recognizing providers' true costs, including the higher cost of caring for infants and toddlers, to ensure a strong supply of high-quality child care it is important to support regular business practices for providers accepting state subsidies, including weekly or monthly payments.

- **Grow the supply of high-quality care for infants and toddlers through higher rates and grants/contracts to expand supply in child care deserts.** More than four of every 10 people in Michigan live in child care "deserts," and 10 Michigan counties do not have any licensed slots at child care centers for infants and toddlers.¹³ Even in areas with a more ample supply of child care, the cost of infant and toddler care is high, and availability is limited.

Traditional subsidies have failed to improve child care supply or quality because reimbursements are based on attendance rather than enrollment, making revenues for providers less stable; and because reimbursement rates have been too low, especially for infants and toddlers.¹⁴ Using data on inequities based on race, ethnicity and income, Michigan should target areas of shortages in affordable, high-quality infant/toddler child care and invest in enhanced contracts for care that recognize the higher costs of caring for the youngest children, and provide a stable source of adequate income for providers.

- **Support home-based and family/friend and neighbor care.** Home-based child care has been the best or only option for many families because it is generally lower in cost, group size is smaller, care may be more convenient to home or work, and there is more flexibility to provide care during non-traditional work hours or before and after school. However, home-based child care providers have struggled, and the number of family and group child care homes in Michigan and nationwide has declined. Many home-based providers work alone and are caring for children for long hours each day and week, and have little time and few resources to manage a home-based business, including attending to licensing, background checks, professional development, quality improvements, billing and reporting. Staffed family child care networks can link these small businesses together to reduce isolation, increase access to professional development and assist with business practices.

Michigan is falling far below the national average in its dedication of TANF funds to child care, and provides only the minimum in state General Funds needed to draw down federal dollars.

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