



Michigan Child Care Assistance Policies: 2006

May 2007

Stringent Work Requirements Coupled with a Decrease in Funding Threatens Child Care Assistance for Low-Income Families

— Highlights —

- Michigan Could See Increases in the Need for Subsidized Child Care
- The Nation and the State Have Cut Spending on Child Care Assistance
- Very Few Low-Income Families in Michigan Receive a Child Care Subsidy
- Several New Initiatives May Affect the Child Care Subsidy

Background on the Michigan Child Development and Care (CDC) Program

Most families receiving the child care subsidy in Michigan qualify on the basis of their income (under 144% of poverty), and most (86%) need the assistance due to employment. Others eligible for the child care subsidy include licensed foster parents needing care for foster children; members of a protective services case participating in an approved treatment program for a physical, mental or emotional condition; and FIP or SSI recipients.¹ The subsidy is also available for eligible families when a parent is meeting work requirements by attending high school completion classes and other approved employment related activities.

The expense of child care represents a significant barrier to employment for low-income families. Child care subsidies provided to working poor families have proven effective in enabling parents to work, as parents receiving a child care subsidy are more likely to stay employed, have higher earnings, and not need cash assistance.²

Most low-income parents must work outside the home in order to support their families, but their child care options are limited, primarily by cost. In 2006, the average cost of full-time infant care in Michigan was \$7,916, approximately one-half of poverty-level income (\$17,170) for a family of three in 2007.³ Low-wage workers' earnings clearly cannot cover such costs, or even costs well below average.

¹ Budget & Policy Analysis Division. *Program Descriptions, FY 2007*, Lansing, MI. Michigan Department of Human Services, January 2006. [http://michigan.gov/documents/DHS-PgmDescFY2007_150458_7.pdf,p.22]

² Hannah Matthews and Danielle Ewen. *Child Care Assistance in 2005: State Cuts Continue*, Washington, D.C. Center for Law and Social Policy. November 1, 2006.

³ *2006 Child Care in the State of Michigan*. National Association of Child Care Resource and Referral Agencies. [<http://www.naccra.org/randd/data/docs/MI.pdf>]

Most Michigan families receiving state child care subsidies do not receive assistance through the Family Independence Program (FIP), Michigan's cash assistance program. Only about one-quarter (26.8%) of the current child care subsidy caseload in Michigan receives or has recently received cash assistance.

Providing subsidies for child care can help parents stay employed, expand child care options for parents, and provide a safe, stable environment for children. The health, safety, and economic benefits to children, their families, and the state of Michigan represent a significant return on child care subsidy dollars.

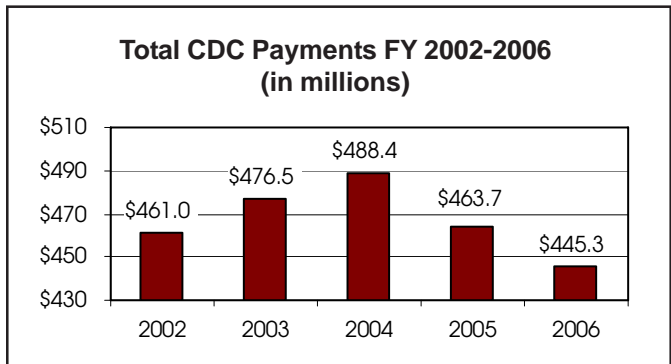
Michigan Could See Increases in the Need for Subsidized Child Care

The Family Independence Program (FIP) is Michigan's cash assistance program under the federal Temporary Assistance for Needy Families (TANF) block grant. FIP serves the most destitute families in the state—those with monthly incomes below \$811—43 percent below the federal poverty level. The Michigan FIP caseload increased from an 80,000 average for the FY 2006, to an average of over 88,000 for November 2006 through February 2007. However, the child care caseload could also increase in the coming months, as the following federal changes in TANF work requirements take effect:

- The share of the FIP caseload that is working must double from 24 to 50 percent: An additional 24,000 families will need to find work in order to meet the federal work participation rate.
- These increased work requirements could more than double the number of FIP families who need child care assistance, possibly increasing the current child care assistance caseload from around 60,000 to 84,000, creating significant budget pressures.

Unfortunately, if budget pressures continue, the state may decide to lower the eligibility cutoff for child care assistance or decrease the amount of the subsidy, as it has done in the past. Doing so may cause families who are currently working and receiving a child care subsidy to lose their current

child care arrangements and their jobs if they cannot find alternate child care. Destabilizing child care arrangements also has a detrimental effect on children, as they need stable relationships during these critical developmental years.



Source: http://michigan.gov/documents/dhs/DHS-KeyStatistics2006_181393_7.pdf
p. 31, Table 16

The Nation and the State Have Cut Spending on Child Care Assistance

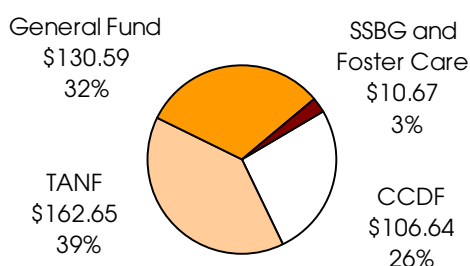
Unfortunately, spending on child care assistance in Michigan has been steadily declining since 2004. For the Fiscal Year 2006, total Child Development Care (CDC) payments for child care subsidies were \$445 million, over \$18 million less than 2005 and over \$44 million less than 2004. The Governor's executive order to balance the FY 2007 budget eliminates another \$11 million, and the FY 2008 budget allocates only \$410 million total for child care.

Two-thirds of the CDC budget is federal funding. The state's general fund provides \$130.6 million, or roughly one-third of the total payments for child care subsidies. All state general funds are "matching" or "maintenance of effort," that is, state funding required to secure federal dollars.

The largest share (39%) of funding for child care in Michigan comes from the federal Temporary Assistance to Needy Families (TANF) block grant. The TANF reauthorization in 2006 provided only an additional \$1 billion in mandatory funding for child care over five years. This is \$11 billion short of the Congressional Budget Office's recommended funding level, based on the new federal work requirements for cash assistance

Child Development and Care Budget Recommendations FY 2008

(dollars in millions)



Source: FY 2008 Executive Budget Public Assistance Programs, Michigan DHS. February 21, 2007

recipients. The Child Care Development (CCDF), which provides multiple funding streams for child care services, training, and quality enhancement, will contribute one-quarter of the CDC budget in 2008.

Congress has not been able to pass an appropriations bill for FY 2007, so a series of continuing resolutions have maintained funding at the 2006 levels. The President's proposed 2008 budget would mean a cut in Michigan's federal funding for child care by \$1.1 million in 2008, and \$13 million over the next five years.

Without federal increases for child care, Michigan will have difficulty finding more dollars to extend subsidies to the larger number of families required to work or be engaged in work activities.

Very Few Low-Income Families in Michigan Receive a Child Care Subsidy

Roughly 59,000 families (115,000 children) received a child care subsidy in fiscal year 2006.⁴ This number has remained essentially unchanged since the year 2000. While some of the stabilization in the caseload may result from Michigan's unemployment levels, other factors such as low reimbursement and limited outreach also play a role. In fact, Michigan has been limiting access to subsidies through a number of policy decisions outlined in the following discussion.

► Lowered Eligibility Levels

Michigan has decreased its eligibility cutoff for child care assistance both in absolute dollars and as measured against the federal poverty level. Michigan has the fifth lowest eligibility level in the nation for child care subsidies when compared to median income and is one of only two states that has not updated its reimbursement rate since 1997, according to the National Women's Law Center.⁵

Michigan Income Eligibility Limits for a Family of Three 2001, 2005, and 2006

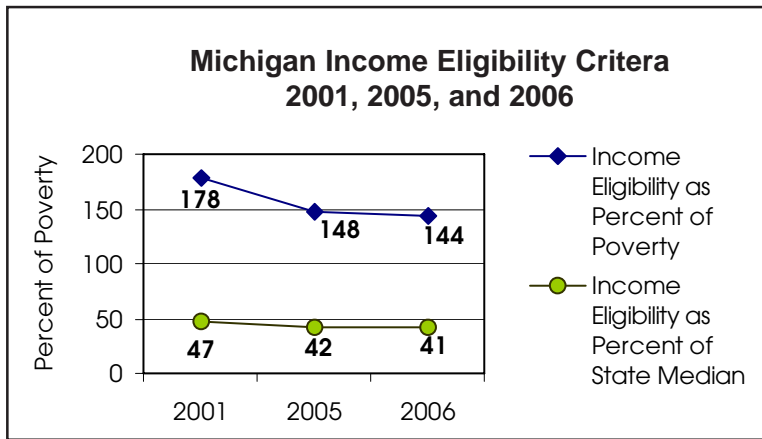
	2001	2005	2006
Income Limit as Annual Dollar Amount	\$26,064	\$23,880	\$23,880
– Change Compared to 2006	-\$2,184	\$0	—
Income Limit as Percent of Poverty	178%	148%	144%
– Change Compared to 2006	-34%	-3%	—
Income Limit as Percent of State Median Income	47%	42%	41%
– Change Compared to 2006	-8%	0%	—

Note: 2001 federal poverty level for a family of three was \$14,630/year; 2005 poverty level was \$16,090/year; 2006 poverty level was \$16,600/year.

Source: National Women's Law Center, September 2006

⁴ Bureau of Accounting. *Program Statistics: Fiscal Year 2006*, Lansing, MI. Michigan Department of Human Services.

⁵ Karen Schulman and Helen Blank. *State Child Care Assistance Policies 2006: Gaps Remain, with New Challenges Ahead*. Washington D.C.: National Women's Law Center.



Source: National Women’s Law Center, September 2006

Michigan was one of only thirteen states that did not raise its income eligibility cutoff from 2005 to 2006; in both years, families of three making over \$23,880 were ineligible for assistance. The federal poverty level⁶ increases to keep pace with inflation, so families whose 2006 incomes also kept pace with inflation may have been deemed ineligible although their need in real dollars—as measured by a percentage of the poverty level—did not change.

Although a family requires an income of at least 200 percent of the federal poverty level just to meet basic needs, according to self-sufficiency budgets calculated with actual average costs in the state, Michigan is in the one-third of states with eligibility levels for child care assistance below 150 percent of the federal poverty level. The 2006 eligibility cutoff in Michigan was at 144 percent of the federal poverty line, or only 41 percent of the state median income, representing the fifth lowest cutoff as a percent of state median income. As recently as 2001, Michigan had the 10th lowest cutoff, at 178 percent of the federal poverty level.

► **Cliff Effect**

Unfortunately, many families who receive child care subsidies lose eligibility for their benefits very quickly, an experience that is sometimes called the “cliff effect.” For families making between 108

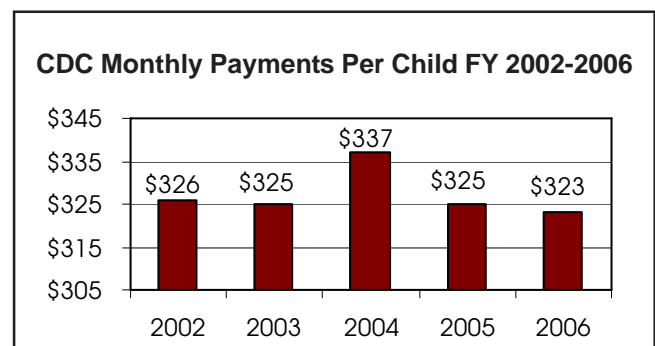
percent and 144 percent of poverty, the amount of the subsidy from the state decreases, ending at 70 percent of the original subsidy amount.⁷ However, a family receiving a slight raise, and subsequently placing its income at or above the cutoff amount, will fall off the “cliff” and receive absolutely no help at all.

► **Stagnant Reimbursement Rates**

Even those Michigan families who do receive child care subsidies are not getting as much help as they need. Michigan is one of only two states (the other is Oregon) that have failed to update child care

reimbursement rates for over a decade. Providers are currently reimbursed at the 75th percentile (the federally recommended percent of *current* market rates) of 1996 rates. A 2005 Department of Human Services market rate survey of centers, family homes, and group homes found that two-thirds of providers serving children under 2 ½ years of age are reimbursed by the state at less than half the market rate. Almost all (94%) of providers serving children over 2 ½ years of age were reimbursed at less than half the current market rate.⁸

The state’s average subsidy payment per child in FY 2006 was \$323 per month. As this number is based on 1996 rates, inflation alone should increase

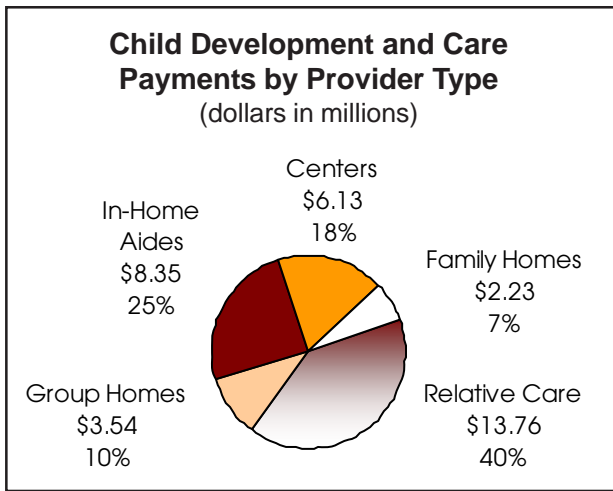


Source: http://michigan.gov/documents/dhs/DHS-KeyStatistics2006_181393_7.pdf p. 31, Table 16

⁶ 2001 federal poverty level for a family of three was \$14,630/year; 2005 poverty level was \$16,090/year; 2006 poverty level was \$16,600/year.

⁷ *Child Development and Care Program Income Eligibility Chart*. [http://michigan.gov/dhs/0,1607,7-124-5453_5529_7143-20878--,00.html]

⁸ Child Care and Development Fund Plan for Michigan, FY 2006-2007, p. 27.



Source: FY 2008 Executive Budget Public Assistance Programs, Michigan DHS. February 21, 2007

the market rate by 29 percent to \$416 per month for 2006. However, even this amount is much less than the average cost of child care—approximately \$534 per month in Michigan.⁹ With the current subsidy, a family with average child care costs would need to pay \$269 for costs not covered by the state.

Because providers charge more than the current subsidy, families dependent on the subsidy have limited child care options. In fact, 65 percent of all subsidy payments in Michigan go to in-home aides or relatives. Another reason is that while the state reimburses providers at an hourly rate, most licensed providers charge on half-day and full-day block schedules. Thus, families who use this form of care often find themselves paying for hours they do not use because they must pay for a block schedule, while the state only reimburses the parents for the hours they actually work. Furthermore, few licensed care providers offer care during evenings and weekends, so families that receive a subsidy must rely on relative care or in-home aides when working shifts that are so common in low-wage jobs. Relatives are often low-income as well, and cannot

provide care on a regular basis and assume those costs. They must receive adequate reimbursement in order to sustain themselves and their own families.

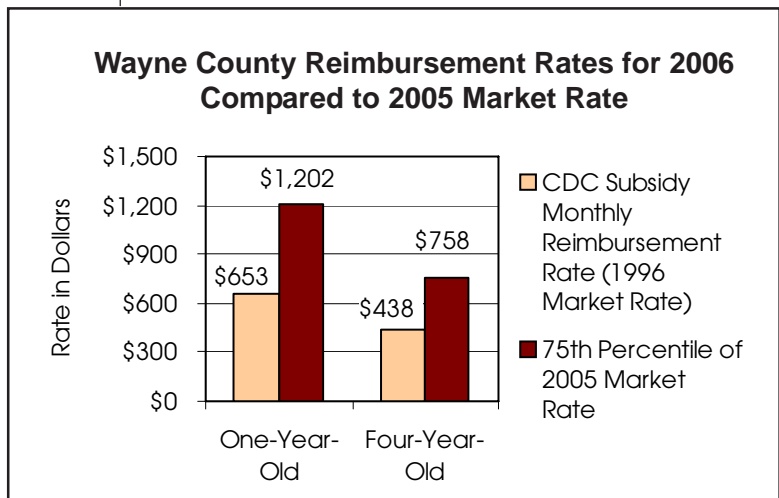
► Comparison to Other Metro Areas

Michigan policies on subsidized child care have resulted in a very poor showing for the state’s largest metro area: Wayne County.

For four-year old center care, the gap of \$320 between actual market and reimbursement rates in Wayne County was the second largest among 50 metro areas in the nation in 2006. This gap must be absorbed by low-income families or by providers.

The situation is even worse for families with infants in Wayne County. The gap between the reimbursement rate for infant care and the market rate is \$549, or a difference of 46 percent, the worst in the nation.

This shortfall is particularly harsh for new mothers in Michigan receiving cash assistance. While federal welfare law does not require mothers receiving cash assistance to work before their children are 12 months old, Michigan requires them to work once their infants are 12 *weeks* old.



Source: National Women’s Law Center, September 2006

⁹*Economic Self-Sufficiency in Michigan*. Lansing, MI. Michigan League for Human Services. May 2007. p.9.

Several New Initiatives May Affect the Child Care Subsidy

Some recent initiatives in the state may affect access to child care for low-income families. These include a new union of home-based child care providers, the establishment of Project Great Start and the Early Childhood Investment Corporation, and a proposed quality rating system.

► Child Care Providers Together Michigan

Child Care Providers Together Michigan, a union of child care providers receiving state subsidies, aims to improve the quality of child care by stabilizing the work force, improving the quality of existing providers, and helping to prevent highly qualified providers from leaving the field because of low pay. A joint effort between the United Auto Workers (UAW) and the American Federation of State, County and Municipal Employees (AFSCME) officially united the 40,000 home-based child care providers in late November 2006. The new union's goal is to raise wages and benefits and provide opportunities for training and professional development. Currently, Michigan home-based child care providers receive a rate from the state of anywhere from \$1.35 to \$3.00 an hour per child.¹⁰ In Illinois where a similar effort was launched, provider rates will increase 35 percent over three years, and even more for providers who receive specific training.

► Project Great Start and the Early Childhood Investment Corporation (ECIC)

Established in 2005, the ECIC through devolution to local communities, "will allow the state to more effectively focus early childhood efforts and leverage public and private dollars to expand the availability of high-quality early education and child care, including parenting education."¹¹

Currently, there are 21 Great Start communities defined by Intermediate School Districts that have been funded to begin the process of assessing the well-being of young children and the systems that serve them in their communities. That system would include the subsidized child care program.

► Quality Rating System

Finally, recognizing the importance of quality in child care, the Michigan Early Learning Project, funded by the Joyce Foundation, developed recommendations for a child care quality rating system in the state. The rating system designated five tiers of quality, where each tier will represent a higher level of quality. Phase I of the quality rating system will consist of structural quality monitoring and will begin in Great Start Communities; Phase II, which will monitor process quality, will begin after all Great Start Communities have been formed.¹² However, potential costs to providers, parents, and the state resulting from efforts to improve quality have not been addressed. Currently licensing consultants for the Child Day Care Program have caseloads that are roughly four times the national recommended ratio (400 vs. 75), so they would have difficulty monitoring the implementation of such a system.

Summary

While Michigan's CDC Program seeks to assist poor and low-income families to secure affordable, accessible, and quality child care, the freezing of the payment at 1996 rates and lowering of the eligibility level from 178 to 144 percent of the federal poverty level are compromising this goal. In 2006, a total of 59,000 families or 115,000 children received support for child care. Federal and state policy makers have cut child care funding while the need for such assistance may grow due to more stringent work requirements in the 2006 reauthorization of the federal TANF block grant. In 2006 Wayne County has the second largest gap among the nation's 50 largest metropolitan regions between the actual market cost and the reimbursement rate for four-year-old center care. It remains to be seen whether access to subsidized child care will improve as a result of the unionization of child care workers, the support of the ECIC, or the implementation of the Quality Rating System.

¹⁰ Joe Guy Collier. *UAW Branches Out In Michigan: 40,000 Launch Child-Care Union*, Detroit Free Press, December 13, 2006.

¹¹ ECIC website, [www.greatstartforkids.org].

¹² Megan Smith. *Creating a Child Care Quality Rating System in Michigan: Explanations and Early Recommendations*, East Lansing, MI.: Michigan Association for the Education of Young Children (MIAEYC). June 3, 2005.

Recommendations

The state is compromising its own goal by limiting access to child care options for low-income families by reducing the subsidy and lowering the eligibility level.

Increasing access to child care subsidies for low-income families should be a top priority for the state so that low-income parents can “afford” to work. Thus, the state should raise the income eligibility levels so that more families who need child care assistance actually receive it, and eliminate the cliff effect that cuts assistance before families have income adequate to pay for child care. The state also has a vested interest in providing subsidy amounts adequate to allow parents have choices. Accordingly, the state should adjust the reimbursement rates of child care providers to current market rate levels. Finally, the importance of family, friend, and neighbor care for many low-income families should be acknowledged, and supported financially and through information, advice, and education. All of these changes would increase the access to and quality of child care in the state of Michigan. Specific policy recommendations would include the following:

- **Raise income eligibility from 144 percent to 185 percent of poverty (\$31,764 for a family of three in 2007).** The current eligibility cutoff as a percentage of the poverty level is substantially lower than many other states. In 2001 the state compared favorably with other states with an eligibility level of 178 percent of poverty level. At 185 percent the standard would align with other family support programs and come much closer to the income level at which families can meet their basic needs.
- **Adjust reimbursement rates to the most recent market survey.** Current market rates for child care assistance should be used to update the reimbursement rates for providers. Now Michigan is reimbursing providers at

rates that are 10 years old, which means that few providers are willing to accept the subsidy as full payment. Reimbursing providers at 75 percent of the current market rate will open up more options for low-income families and allow for better child care overall.

- **Improve the quality of child care by developing strategies to support family, friend and neighbor care.** Many low-income families rely on family, friend, and neighbor care. Increased support could take the form of information and education about early childhood development and/or credentialing, as well as providing higher subsidy payments. Initiatives in other states include building a network of child care providers by linking center-based and family-based care, workshops and trainings, home visits, and educational television programs.

Decreased funding has eroded child care assistance for low-income families. Furthermore, with the recent changes to TANF that mean more families must be working, increasing access to quality child care is essential for Michigan’s low-income children. Promoting safe, accessible and affordable child care requires better policy choices by the state.