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Cost of Child Care

Legislative Report on Cost Containment Options in the Child Care Assistance Program

Minnesota Department of **Human Services**
January 2005

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I. Resources used to develop report

In preparing this report the Minnesota Department of Human Services built on existing projects to make efficient use of resources. Funding sources included the Child Care Development Fund, the U.S. Department of Health and Human Services, a special federal research grant through the Child Care Bureau (Project Number 90YE0010) and in-kind donations by community members. The department gratefully acknowledges the efforts of legislators and their staff, county staff, staff from the Child Care Resource and Referral Network, child care providers and families who have offered insight into the issues addressed. The report is solely the product of the Department of Human Services.

The following is a summary of the costs of preparing this report, as mandated by the Laws of 1994:

State staff salary costs:	$80,000
Printing costs:	$1,400
Total costs:	**$81,400**

II. Executive Summary

In 2003 the Minnesota Legislature adopted reforms to the Child Care Assistance Program, including changes to focus funds on the lowest income working families and control future growth while also helping balance the state budget. To better manage costs in the future, the Legislature directed DHS to study the differences of child care costs in rural and metropolitan areas and to make recommendations to the Legislature for containing future cost increases in the Child Care Assistance Program (CCAP). Some legislators also expressed interest in the distribution of child care rates in the private market compared with the rates of providers caring for families receiving child care assistance. Legislators also wanted to know about the relationship, if any, between the CCAP expenditures and rates charged by providers. This report is intended to describe more fully some of the dynamics involved at work in the cost of child care, cost containment, tax policy to support working families, and an equitable allocation formula for the Basic Sliding Fee. This report is organized accordingly. We end with conclusions. Along the way, we delved into many – though by no means all – of the details of the child care system, and arrived at some interesting findings that we hope will assist policy makers.

As we proceeded, we were reminded the extent to which contemporary child care is a system. It's made up of different parts that function interdependently and dependently. Changing the way any system component interacts with another component has an impact on the lives of children and their parents.

Child care is, in fact, a fairly complex system, with many variables that impinge on its basic components. Families who seek child care for their child(ren) have a set of challenges; child care providers, whether in homes or centers, have a different set of issues; government units that fund or regulate some aspect of that system have a list of concerns.

A key characteristic of the child care system is that each component has very few discretionary resources. Families benefiting from CCAP have little in the way of discretionary income. The research showed that most child care providers have extremely modest financial margins. Government units are mindful of tight dollars and are monitoring cash flow very carefully. That no component of the system has much latitude is an important theme throughout this report.

Because parents, child care providers and government units have so little discretionary money or time, the enhancement of one of several competing public values probably comes at the expense of another. This is particularly true in the case of CCAP where care is subsidized through public funds and purchased in the private market. Cost containment, economic stability for families and school readiness for children, access to care, and price sensitivity are among the several high-priority values in contemporary American child care.

A brief overview of the Child Care Assistance Program is in order before providing an overview of our key findings. The purpose of CCAP is to provide financial subsidies to help low-income families pay for child care in the private market so that parents may pursue employment or education, leading to employment. It also helps to ensure that children from low-income families are well cared for and prepared to enter school ready to learn.

Families earning 175 percent of the federal poverty level (FPL) or less, or receiving benefits through the Minnesota Family Investment Program (MFIP), are eligible for CCAP. Families are no longer eligible for the programs when their earnings are 250 percent of FPL. All families with incomes above 75 percent of the federal poverty level have a copayment as their share of child care costs. Copayments increase as family income increases.

The department sets maximum provider rates that can be paid through the Child Care Assistance Program at the 75th percentile of all reported rates for like care: the specified type of care (licensed family child care or licensed center), age (infant, toddler, preschool and school age) and time category (hourly, daily and weekly). Currently the 75th percentile is based on rates from the survey conducted in 2001 as a result of the rate freeze imposed by the Legislature through June 30, 2005. CCAP will pay 100 percent of a provider's rate, less the family's copayment, up to the maximum rate. If the provider's rate for private pay families is below the maximum rate established by DHS, the provider is paid their rate less the copayment. If the provider's rate exceeds the maximum rate, the parent may pay the difference in addition to the co-payment.

In the course of the last eighteen months, DHS sought the input of child care providers, legislators and community leaders. We examined the financial dynamics of child care in some detail. We examined the experiences of other states that have made adjustments in the ways they provide public support for child care. A thorough review of the academic literature on this topic was done. Several key findings emerged from this research:

Key findings

1 **Families on CCAP are a relatively small part of the private child care market. Families on CCAP are accessing child care center slots at a higher percentage than family child care slots. Additional information on this topic may be available in a report to be released summer of 2005.** Our analysis of licensing data from March 2004 suggests that approximately six percent of licensed family child care slots and 10.2 percent of licensed center slots in Minnesota were filled by children funded, at least in part, through CCAP. CCAP may or may not be the impetus for these decisions. Other mitigating factors may be families' need for certain hours of care and transportation issues.

2 **CCAP families choose providers with similar charges to those chosen by private pay families.** The distribution of all provider rates in the market approximates a bell curve with slightly more providers in the middle of the distribution than at the ends. Families accessing CCAP are selecting providers across all percentiles, mirroring the private market.

3 **Metropolitan and rural providers both increased weekly prices at similar rates in the last six years. The majority of rural family child care providers charge by the hour, however, and saw an inflation-adjusted decrease in rates.** There was a gradual upward pattern across all age groups and for expensive and inexpensive care between 1998 and 2004 statewide. In rural Minnesota 65 percent of family child care providers charge by the hour. After controlling for inflation, this sector of the market experienced a 1.7 percent decline per year from 1998-2004. Rural family child care providers who charge by the week (35

percent) experienced a 2.3 percent annual increase after controlling for inflation during the same time period.

4 **Child care providers are operating on the edge.** On average, centers statewide are operating at a profit of almost one percent. This is not statistically different than the point at which cost and revenue is equal. Family child care providers are also operating with modest resources. Dividing average family child care provider IRS taxable income by 3,000 hours of work per year calculates an average hourly provider wage of $4.95 in the metropolitan area and $2.83 in rural Minnesota based on department estimates.

5 **Child care prices are primarily influenced by local economic factors, although CCAP expenditures do influence prices to some degree.** Licensed child care rates are positively correlated with fair market rent, center capacity, average weekly earnings, median income and metropolitan status. CCAP expenditures do influence prices to some degree although fair market rent has a larger impact. Applying 1998-2004 state level historical trends to Hennepin County child care centers serving preschoolers, after controlling for inflation, the weekly rate is approximately $1.30 higher per year, or a total of $6.50 higher at the end of the time period, due to the 44 percent increase in CCAP expenditures. A 3.3% increase over six years represents approximately six-tenths percent increase per year.

6 **Minnesota policies on a statewide basis are in line with minimum requirements established in Child Care Development Fund (CCDF) regulations.** Other states have made changes in eligibility and rate policy over the last two years that are similar to those in Minnesota. An analysis of trends in state eligibility policies conducted by the Child Care Bureau for 2004-05 identified several trends in eligibility parameters. Twenty-six states reported income eligibility ceilings expressed as a percentage of State Median Income (SMI) that are lower than those reported in the FFY 2002-03 CCDF Plans. Twelve states reported income eligibility ceilings that are higher than those reported in the FFY 2002-2003 CCDF plans. Average income entrance eligibility is at 59 percent of SMI in 2003. Minnesota is below this level at 44 percent SMI for income entrance, but slightly above it at 63 percent SMI for its exit point. Minnesota is ranked 33rd comparing entry eligibility and seventh comparing exit points ranked by the Federal Poverty Level as reported in the 2003 federal plans.

7 **The rate freeze has reduced the percentage of providers with rates below the CCAP maximum rates below what it would be if rates were not frozen.** In 2004, 68.4 percent of family child care providers and 56.8 percent of child care centers were covered by the maximum rates based on 2001 rates. This compares to the 82-83 percent of provider's rates that would be below the maximum if the 75th percentile of the 2004 market was implemented.

8 **While there may be lessons to be learned from the experience of other units in DHS with rate-setting or cost-sharing strategies, because of the differences in the kinds of marketplaces that other DHS programs operate in, direct applicability is not apparent.** The changes in Minnesota's private child care market prices are in the same direction as increases in other service-based industries costs and prices. It most closely tracks with nursing care facilities and adult day care services. While both child care and nursing home funded

programs are concerned with quality, the markets in which care is purchased differs significantly based on the public-private distribution.

9 **State policy goals for promoting economic stability are supported most effectively when parents have access to affordable child care that supports their employment needs.** A review of the substantial academic literature on the links between job and child care stability reinforced other findings we made showing that child care subsidies operate within the local market. This means that parents across all income groups need to be able to find and afford child care while they work. State level policy needs to reflect this local context for families accessing CCAP. Parents' ability to pay child care costs (including copayments) is sensitive to the percent of earnings expended to access care. The level of support available to parents as they leave welfare impacts their ability to remain off of welfare in the future. For families with children under six, help paying for child care was the most common reason cited on the "Reasons for Application to MFIP" study.

10 **Access to child care that meets established standards may show significant improvement in school readiness for children from low income families.** Quality early learning opportunities exist in child care centers, licensed family child care homes and with family, friends or neighbors. Quality early learning experiences are most likely to occur in environments that have intentional curriculums and stable, responsive providers with formal training or education in early childhood development. A recent study by DHS showed that children from low income households whose parents had lower education levels but who attended an accredited child care center had school readiness ratings at the same levels as children from households with higher incomes. This speaks to the need for parents to have access to alternatives for child care and the need for parents to have access to information on quality child care when they are making their decision.

11 **Tax policy has an impact on some families' ability to purchase child care.** The report focused on the Dependent Care Tax Credit (DCTC) and pre-tax expenses accounts. DHS staff analyzed how families would experience each tax policy by developing tax scenarios for different families. Variables considered were county, type of care and income. For families with income at 200-250% of the FPL, use of pre-tax accounts produces better tax benefits than use of the DCTC. For families at 150% of FPL, the use of the DCTC produces better tax benefits. Cash flow problems can reduce the utility of both options for low-income families. Pre-tax accounts serve a role in extending eligibility for the Earned Income Tax Credit (EITC). Tax policy does not necessarily ease the transition off CCAP. Families who already access tax benefits maximize them before they lose eligibility for CCAP. The information that follows provides further background on these themes, findings, and recommendations.

The exact policy needs to balance the need for cost containment with measured impact on client access to care. No doubt this report will raise further questions that merit review. Our child care system is more complex than one might initially assume. We welcome that review and we hope this report furnishes some useful findings that lead to a fair and sustainable policy for children, parents, providers and counties in Minnesota.

Based on these key findings, the department makes the following recommendations.

Cost containment recommendations

The department recommends that a combination of strategies be considered for cost containment in SFY 2005 and 2006.

Strategies to consider implementing immediately:

1. **Program refinements**
   Limit absent day payments and establish a registration fee maximum for all counties. These changes both serve to align decision making in the child care assistance program more closely with the decision making pressures that private pay families face. While the cost savings are minimal, they serve to begin the transition for families receiving assistance to the market decisions they will be facing when they move off of CCAP.

2. **Program restrictions**
   The department recommends that year to year increases be restricted to help control growth in CCAP expenditures. The exact policy should balance the need for cost containment with the measured impact on client access to care. The department should use market surveys to assess the extent to which maximum rates allow access to the network of care available to private pay families, including differences in access in different parts of the state.

3. **Systemic changes**
   Consider setting aside a limited amount of funds to promote access to providers who meet characteristics designed to promote school readiness for low income children or economic stability as identified under the option "Establish Contracts or Service Agreements." Outcomes from funds invested should be tracked and used to inform future policy and cost containment decisions. Efforts should be made to ensure that all provider types are considered for inclusion in the test.

4. **Connections to Other Systems**
   The department has authority to match data with the Department of Revenue to improve access to tax credits for families on MFIP. This would include families who are on MFIP and participate in the Child Care Assistance Program. The state should consider changes in legislation to expand this permission to families who are on the Transition Year and Basic Sliding Fee programs. While the benefits of accessing child care tax credits are limited, it appears that access to the Earned Income Tax Credit would have significant related benefits for many low income workers.

   Focus some of the resources available for infrastructure development under the CCDF on exploring support of administrative structures that would take advantage of economies of scale to reduce costs and working hours and improve profit margins for family child care providers and rural based center providers. Examples include: administrative activities such as accounting, billing, tax preparation; group purchasing for items such as insurance, supplies and flexible staffing, and resource development pools including substitutes, assistants and professional development. In addition, explore changes in licensing statutes that would allow increased economies of scale through satellite management of family child care homes.

Basic Sliding Fee allocation recommendations

The significant policy changes of the past year and the effect of these changes on county expenditures, both in transition and as an on-going situation, have created an environment that is too unstable to predict how a formula change would affect expenditures. Because of this instability, the possible formula changes analyzed do not appear to more accurately align demand and resources. Therefore, the department is recommending that the BSF allocation formula not be changed at this time. When the child care assistance environment and spending are more stable, additional research and analysis could be completed to determine if one of these formula changes, or some other change, should be implemented.

While the advantages of regional allocation are not insignificant, the disadvantages must be addressed before moving forward. Statewide implementation of an electronic child care assistance information system must occur before allocations can extend beyond county boundaries. In addition, dialogue must occur with counties about administrative resource issues. Therefore, the department is not recommending a switch to regional allocations at this time but will reconsider the possibility when an electronic information system is implemented.

Tax policy changes to consider

The state could encourage use of the pre-tax accounts and study ways to limit the risks facing families who use them.

The following would require changes at the federal level to be meaningful for families:

- Tax policy changes could be considered to extend the benefits to the level necessary to ease the transition off the Child Care Assistance Program.
- Families are required to cash flow their child care expenditures to some degree under both the dependent care tax credits and pre-tax accounts. This is an area which policy changes might be made to ease the cash flow burden.

Consideration of these changes should include an awareness of the magnitude of changes in Minnesota tax policy relative to the magnitude of federal tax benefits. It should also address the state policy goal of tax simplification and consistency with federal tax policy.

Tracking impacts of recommendations

The department has identified options for tracking the impact of future changes to CCAP in the report. To the extent possible, with existing resources, mechanisms to measure outcomes based on policy goals will be developed and tested during this time period. The information gathered from this analysis will be used to inform future cost containment decisions.

Conclusion

The Child Care Assistance Program has experienced a multitude of changes over the last two years and the impact of these changes has yet to be fully assessed from a policy perspective. The November 2004 forecast shows that costs are down. The policy changes related to cost containment in 2004 which capped maximum rates, increased copayments, eliminated accreditation bonuses, and changed to hourly payments for legal non-licensed providers certainly had an impact on the average payment per family in the child care assistance program. The change in eligibility to 175% of poverty level has targeted funds available to the lowest income families.

Other unanticipated changes in the program are beginning to appear. Families who are currently eligible for child care assistance and who were previous program participants are no longer participating and other families who would be eligible for the Child Care Assistance Program are not applying. It appears that the families are still working or participating in other authorized activities but they are not using the Child Care Assistance Program to the degree expected to subsidize their child care costs. We do not know how their children are being cared for or whether and how the parents are paying for the care. Additional work is needed in this area to determine if the state's policy goals are being met. Access to the provider market is more limited, but we don't know at what point this will have an effect on job stability for families or school readiness for children.

Minnesota is at a crossroads. We have an opportunity to consider how the funds in Minnesota that are invested in children through the child care system can be used most effectively to support important public policy goals: contain costs; support economic stability for families and school readiness for children; provide access to care; and create price sensitivity. We believe this report will inform those decisions and allow the state to make decisions that will strategically support both the workforce of today and tomorrow in the most cost effective way.

III. Introduction

The 2003 Legislature directed the Department of Human Services (DHS) to evaluate the cost of child care in Minnesota, to examine the differences of child care costs in rural and metropolitan areas and to make recommendations for containing future cost increases in the Child Care Assistance Program. Recommendations are to comply with federal child care and development block grant requirements, and to permit the department to track the effect of rate changes on program costs, the availability of various types of child care throughout the state, the number of families on waiting lists, and the care options available to program participants.

Background on the Child Care Assistance Program

The Child Care Assistance Program (CCAP) provides financial subsidies to help low-income families pay for child care so that parents may pursue employment, or education, leading to employment. It also helps to ensure that children are well cared for and prepared to enter school ready to learn.

Child Care Assistance is delivered through two funding streams. The Minnesota Family Investment Program (MFIP) helps families work toward economic stability. The state fully funds child care assistance for families who participate in MFIP, or who have moved off MFIP in the last year. The Basic Sliding Fee (BSF) Program assists low-income working families, who are not participating in MFIP, with child care costs. BSF is funded through a capped allocation and program access is based on availability of funds at the county level. A funding chart that includes six years of actual payments and five years of projections, broken down by federal, state and county funds is included as Appendix A.

Families earning 175 percent of the federal poverty level ($27,423 for a family of three)[1] or less, or receiving MFIP, are eligible for CCAP. Families are no longer eligible for the programs when their earnings are 250 percent of the federal poverty level ($39,175 for a family of three). All families with incomes above 75 percent of the federal poverty level have a copayment as their share of child care costs. Copayments increase as family income increases. Some families, whose copayments exceed the cost of their child care, leave the program before their income reaches 250 percent of the federal poverty level.

The department sets maximum provider rates that can be paid through the Child Care Assistance Program at the 75th percentile of all reported rates for like care: the specified type of care (licensed family child care or licensed center), age (infant, toddler, preschool and school age) and time category (hourly, daily and weekly).[2] Currently the 75th percentile is based on rates from the 2001 survey.[3] CCAP will pay 100 percent of a provider's rate, less the family's copayment, up to the maximum rate. If the provider's rate for private pay families is below the maximum rate established by DHS, the provider is paid their rate less the copayment. If the provider's rate exceeds the maximum rate, the parent may pay the difference in addition to the copayment.

The 2003 Legislature froze current rates (which were the result of a survey of the private child care market conducted in 2001) through June 30, 2005.[4]

Background on Report

Minnesota Session Laws 2003, First Special Session, Chapter 14, Section 34, which directs DHS to conduct the analysis of child care costs is included as Appendix C. The report has five sections: cost of care, cost containment, tax policy to support working families, equitable allocation formula for Basic Sliding Fee and conclusions.

This report will assess proposed program changes in the context of the report directive to contain costs; the program goals of supporting economic stability for families and school readiness for children; federal Child Care and Development Fund (CCDF) requirements regarding access to care; and the legislative intent of creating price sensitivity, so that parents choosing the more expensive care bear more of the cost beyond their copayment.

IV. Cost of care

A. Market research

The child care market in Minnesota is largely private, where parents pay the bulk of costs. Families on CCAP are purchasing services from the same providers that provide care to families whose care is not subsidized. A 2001 report identified that 5.7 percent of Minnesota families seeking child care access child care assistance. (Chase, 2001) Analysis of March 2004 CCAP and licensing data suggests that approximately six percent of licensed family child care slots and 10.2 percent of licensed center slots were filled by children funded, at least in part, through CCAP. This means that families on CCAP are accessing child care center slots at a higher percentage than family child care slots. CCAP may or may not be the impetus for these decisions. Other mitigating factors may be families' need for certain hours of care and transportation issues. Additional information on this topic may be available in a report to be released summer of 2005. The remaining families accessing child care do so through their own resources. In some cases, their private purchasing power is expanded through use of state and federal tax policies. In addition, some families receive private scholarships, or assistance from their employer. Because child care assistance functions within a private market, understanding the market is important before analyzing current CCAP policies or considering CCAP policy changes.

There are two child care markets in Minnesota, licensed family child care providers and licensed center-based settings.[5] Licenses are issued by DHS and regulations are defined in Minnesota Statutes. The consumer database of licensed providers is maintained by the Minnesota Child Care Resource and Referral Network (CCR&R). There is also an informal child care market of legally non-licensed providers who are exempt from Minnesota's licensing requirements who are often friends, extended family members or neighbors to the parents.[6] In Minnesota, when CCAP subsidies are used, providers in the legal non-licensed (LNL) market must meet minimum background check requirements.

The Child Care and Development Fund (CCDF), the primary source of federal child care funds, mandates (Section 98.43(b)2) a rate survey of the child care market in the state be conducted no less than every two years. This is one way states ensure that the maximum rates paid through CCAP allow access to the private market as required under CCDF regulations (Section 98.43(a)). Minnesota gathers market rate information through the Child Care Resource and Referral agencies and sends the data to the Institute of Applied Research (IAR)[7] for analysis. IAR supplied the past years of individual provider data to the department for analysis for this legislative report.

Changes made to CCAP to contain costs must be made in the context of federal requirements. Therefore, it is important to understand the possible effect changes may have on the department's ability to meet these requirements. To better understand this market, the department outlined three research questions. These questions examine the private child care market to identify the interaction between CCAP in Minnesota and the market.

- How are child care rates distributed in the private market and for providers caring for families receiving child care assistance?
- How do child care rates compare between the metropolitan and non-metropolitan areas and how have they changed between 1998 and 2004?
- What is the relationship, if any, between the CCAP expenditures and rates charged by providers?

1. The child care market

This section examines how rates are distributed, first in the private market and then for providers serving families in CCAP.

a. Distribution of provider rates in the private market

This section addresses the spread of rates from highest to lowest and the grouping of rates for like care. "Like care" refers to the following components: 1) county of provider, 2) type of care (licensed center or licensed family child care home), 3) age of child, and 4) units of time (hourly, daily or weekly). The distribution of rates for like care can vary from being tightly distributed, loosely distributed, or being separated into different market sectors within the county. The distribution may vary for a number of reasons, including the balance of providers in cities versus the rural areas of the county, and business decisions of providers. The following chart and graph, Figures 1 and 2, are the distribution of all provider rates in the market.

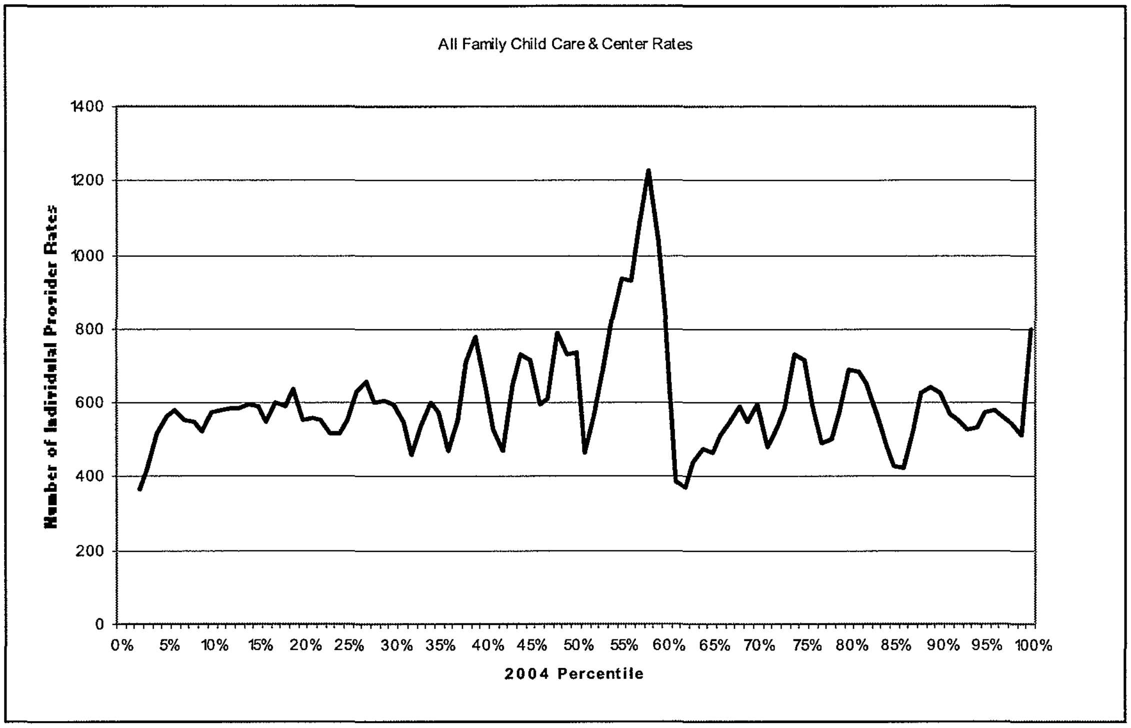
The distribution approximates a bell curve with slightly more providers in the middle of the distribution than at the ends. The distribution will vary on a county-specific basis.

Figure 1 – Distribution of rates in the private market

2004 Percentile	Number of Provider Rates	Percent of Providers in 2004	Cumulative Percent of Providers
1-5%	2428	4.00%	4.00%
6-10%	2778	4.60%	8.60%
11-15%	2914	4.80%	13.40%
16-20%	2956	4.90%	18.30%
21-25%	2763	4.60%	22.80%
26-30%	3039	5.00%	27.80%
31-35%	2561	4.20%	32.10%
36-40%	3256	5.40%	37.40%
41-45%	3092	5.10%	42.50%
46-50%	3598	5.90%	48.50%
51-55%	3752	6.20%	54.70%
56-60%	4553	7.50%	62.20%
61-65%	2221	3.70%	65.80%
66-70%	2920	4.80%	70.70%
71-75%	3104	5.10%	75.80%
76-80%	2921	4.80%	80.60%
81-85%	2495	4.10%	84.70%
86-90%	3060	5.00%	89.80%
91-95%	2738	4.50%	94.30%
96-100%	3466	5.70%	100.00%

Source: 2004 Rate Survey

Figure 2 – Graph of distribution of rates in the private market



Source: 2004 Rate Survey

b. Rates in the Child Care Assistance Program

This section presents information about the distribution of rates charged by providers caring for children receiving child care assistance. To provide some program context, an example and further detail about the mechanics of the 75th percentile is presented first. (See **Figure** 3).

For example, in county A there are twelve licensed family child care providers in the private market reporting the following preschool hourly rates, ordered by lowest to highest:

Figure 3 – County A percentiles

Licensed Family Child Care Providers	Preschool Hourly Rate	Percentile
Provider 1	1	8th
Provider 2	1	17th
Provider 3	1	25th
Provider 4	1.25	33rd
Provider 5	1.25	42nd
Provider 6	1.45	50th
Provider 7	1.5	58th
Provider 8	1.75	66th
Provider 9	1.75	75th
Provider 10	1.75	83rd
Provider 11	2.25	91st
Provider 12	2.5	100th

County A's preschool hourly rate set at the 75th percentile is $1.75. In this example, $1.75 is also the rate at the 66th – 83rd percentiles. This is one example of how the rates may be distributed.

For child care centers, the 75th percentile is set based on the number of child care center slots in a county for each age range, versus the number of providers, to reflect the market of care available to parents.[8] The calculation is done on the total number of slots in a county. For example, if there are 120 slots in a county for toddlers, the 90th slot is the 75th percentile (120 slots multiplied by .75 equals 90). This is done to reflect the various sizes of centers that exist. Family child care slots per site do not vary to this degree and therefore percentile rankings are based on the number of providers.

Additional work was done to determine the distribution of rates of providers serving families accessing CCAP (CCAP providers[9]). Figure 4 below identifies the percent of CCAP providers in five percentile point increments. This chart includes all rates (as surveyed in 2004) of providers that reported caring for children receiving child care assistance at the time of the survey. This would include licensed child care centers and licensed family child care homes, but not legal non-licensed providers.

Figure 4 – Distribution of CCAP provider rates

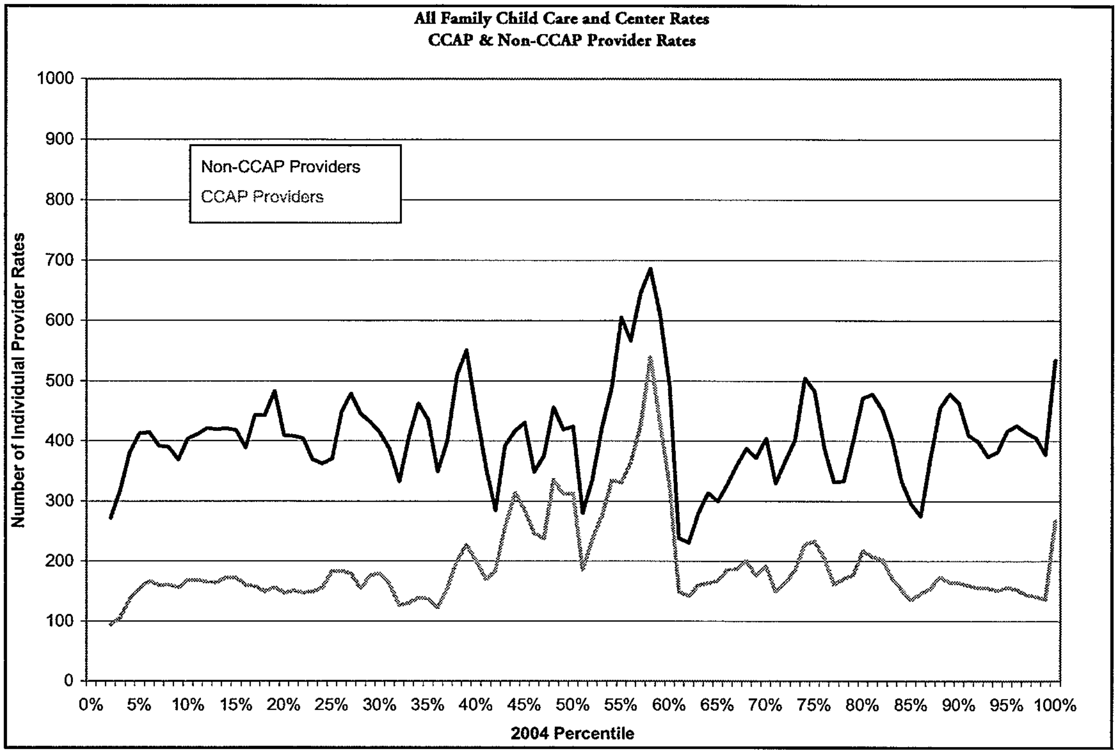
2004 Percentile	Number of CCAP Provider Rates	Percent of CCAP Providers in 2004	Cumulative Percent of CCAP Providers
1-5%	648	3.30%	3.30%
6-10%	822	4.20%	7.50%
11-15%	829	4.20%	11.80%
16-20%	773	4.00%	15.70%
21-25%	833	4.30%	20.00%
26-30%	837	4.30%	24.30%
31-35%	643	3.30%	27.50%
36-40%	946	4.80%	32.40%
41-45%	1,257	6.40%	38.80%
46-50%	1,498	7.70%	46.50%
51-55%	1,386	7.10%	53.60%
56-60%	1,929	9.90%	63.40%
61-65%	821	4.20%	67.60%
66-70%	939	4.80%	72.40%
71-75%	997	5.10%	77.50%
76-80%	935	4.80%	82.30%
81-85%	777	4.00%	86.30%
86-90%	832	4.30%	90.50%
91-95%	767	3.90%	94.50%
96-100%	1,083	5.50%	100.00%

Source: 2004 Rate Survey

Note: The mid-point is selected when a CCAP provider's rate falls in a range of the private market percentiles. Information is not available to determine the percent of CCAP providers' capacity that is filled by those accessing CCAP.

Figure 5 on the next page displays the percentile of all CCAP provider rates as compared to non-CCAP provider rates.

Figure 5 – Graph of distribution of CCAP provider rates



Source: 2004 Rate Survey

Families accessing CCAP appear to be selecting providers across all percentiles, mirroring the private market. This distribution approximates a bell curve and reflects the distribution of all provider rates in the overall market. In other words, CCAP families choose providers with similar charges to those chosen by private pay families.

2. Metropolitan vs. non-metropolitan rates, between 1998 and 2004

The Legislature directed the department to examine the difference in the cost of child care in rural and metropolitan areas. The department was in the process of a separate study with the University of Minnesota (U of M) to perform this analysis and built upon this work for the purpose of the report. A number of items influence child care prices, including demand and supply, government policies, labor costs and facility costs. The U of M study focuses on the overall changes in price. A separate study was commissioned by the department to focus on the cost of providing child care (see section IVB). In the U of M research, counties were divided into two sets through administrative data – the seven county metropolitan area (Region 11) and the remaining 80 counties (non-metropolitan).[10] Within these groupings, the rate of change in median rates by child care centers and family child care homes was analyzed.

Figure 6 describes these differences. (Davis, In publication) Toddlers were selected as the representative age group for in-depth analysis. Findings were similar for other age groups.

Figure 6 - Median child care rate for toddlers in Minnesota

Median Child Care Rate for Toddlers in Minnesota	Median rate	Median rate	Average Annual Percentage Change in Median	Adjusted for Overall Inflation*
Center Weekly Rate	**1998**	**2004**	**1998-2004**	**1998-2004**
Region 11	$155	$204	5.70%	3.00%
Greater Minnesota	$101	$135	6.00%	3.30%
Family Weekly Rate				
Region 11	$100	$130	5.50%	2.80%
Greater Minnesota	$83	$105	5.00%	2.30%
Family Hourly Rate				
Region 11	$3.00	$5.00	11.10%	8.40%
Greater Minnesota	$1.95	$2.05	1.00%	-1.70%

Source: 1998-2002 and 2004 Rate Surveys, analyzed by the University of Minnesota

Notes:
****Based on an annual estimated change in the Consumer Price Index (CPI) for Minneapolis-St Paul of 2.7% between 1998 and 2003.***

Region 11 includes the seven counties in the Minneapolis-St Paul core metro metropolitan area (Anoka, Carver Dakota, Hennepin, Ramsey, Scott and Washington). All other counties are included as "Greater Minnesota."

The annual level of change is reported in Figure 7 below.

Figure 7 – Year-by-year changes in median rates, 1998-2004

TODDLERS	Year By Year Percentage Change					Average Annual Change
Center Weekly Rate	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**2002-2004***	**1998-2004***
Region 11	6.50%	6.10%	7.40%	4.30%	4.10%	5.70%
Greater Minnesota	5.90%	9.80%	6.00%	4.40%	3.80%	6.00%
Family Weekly Rate						
Region 11	5.00%	14.30%	0.00%	4.20%	4.00%	5.50%
Greater Minnesota	6.40%	2.60%	11.10%	0.00%	5.00%	5.00%
Family Hourly Rate						
Region 11	0.00%	16.70%	7.10%	6.70%	25.00%	11.10%
Greater Minnesota	2.60%	0.00%	0.00%	0.00%	2.50%	1.00%

TODDLERS	Year By Year Nominal Dollar Change					Average Annual Change
Center Weekly Rate	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**2002-2004***	**1998-2004**
Region 11	$10.00	$10.00	$13.00	$8.00	$8.00	$9.80
Greater Minnesota	$6.00	$10.50	$7.00	$5.50	$5.00	$6.80
Family Weekly Rate						
Region 11	$5.00	$15.00	$0	$5.00	$5.00	$6.00
Greater Minnesota	$5.25	$2.25	$10.00	$0	$5.00	$4.50
Family Hourly Rate						
Region 11	$0	$0.50	$0.25	$0.25	$1.00	$0.40
Greater Minnesota	$0.05	$0	$0	$0	$0.05	$0.02

Source: 1998-2002 and 2004 Rate Surveys, analyzed by the University of Minnesota

***There was no Rate Survey in 2003. The 2004 Rate Survey was conducted February - April 2004.**

Note that while family child care providers often charge by the hour in rural Minnesota, it is not as common in the metropolitan area.

Questions were raised regarding the dollar level change in different regions of the state. The U of M study reviewed the data at the regional level. "The overall trend is similar across regions, with annual increases a few percentage points higher than the overall inflation rate, but the price levels are considerably lower in non-metropolitan areas than in Region 11 (Twin Cities)." (Davis, In publication) See Appendix E.

Similarities in the level of change occur across all age groups, and for expensive and inexpensive care across regions. The majority of rural family child care providers charge by the hour, however, and saw an inflation-adjusted decrease in rates.

Similarities in the level of change occur across all age groups, and for expensive and inexpensive care across regions. This suggests that the entire distribution of rates has shifted. (Davis, In publication). This has negative implications for families accessing CCAP due to the county maximum rate freeze. Fewer providers will be available under the maximums.

Individual years show anomalies in the rate of change between metropolitan and non-metropolitan child care centers and family child care homes. Providers may make a significant change one year, then wait two years to make an additional change. The market sectors show that overall, the rate of change is fairly comparable between metropolitan and non-metropolitan centers and family child care homes across time (excluding family child care hourly rates), with the average rate of change for median toddler rates ranging between five to six percent, or 2.3-3 percent adjusted for inflation, per year from 1998-2004. The majority of rural family child care providers charge by the hour, however, and saw an inflation-adjusted decrease in rates. The percentage change is similar to changes at the national level in the CPI for child care. (Source: Bureau of Labor Statistics) The CPI and the Producer Price Index (PPI) are discussed in more detail in Section VA4.

Additional findings from the study include: a) the child care rates in the metropolitan area are more widely distributed than in rural Minnesota and b) hourly rates in rural Minnesota cluster at a few points, tending to be round numbers (i.e. $2/hour), while increases in weekly rates in rural Minnesota are similar to the overall trend and do not cluster around round numbers.

The overall finding from this section of the U of M study is that the average private market rate for child care increased annually in recent history. Some pressures include overall inflation, the cost of facilities, staff and parent demand. Policy changes need to balance the challenges between containing costs and allowing access to private pay markets at a sufficient level to assure that federal program requirements are met.

3. Relationship between the CCAP expenditures and provider rates

Research was already in progress to analyze the relationship between child care assistance rates and market trends. The department built on this work to respond to the legislative directive. This study builds on the methodology from a similar report from California. (Marrufo et. al., 2003) Data from a number of different sources, including the rate survey, were examined to address the question of the relationship between CCAP expenditures and provider rates. It is important to interpret the following findings with caution as additional sensitivity analyses may be explored.

The county level variables included in the analysis are:

- Median income in the county
- Fair market rent
- Employment rate
- Share of population that is preschool age
- Metropolitan and non-metropolitan status
- Mean weekly earnings of all workers in the county
- Percent of all children receiving welfare, birth to four-years-old
- Center capacity divided by the number of children birth to four-years-old
- Family child care capacity divided by the number of children birth to four-years-old
- Total CCAP expenditures per child under age five.

The 44 percent increase in CCAP spending from 1998-2004 is associated with a 3.3% increase in child care center prices and 1.4% increase in family child care prices from 1998-2004. A 3.3% increase over six years represents approximately six-tenths percent increase per year.

The variables that were found to have a significant positive correlation with child care center prices were fair market rent, total CCAP expenditures per child under age five and center capacity per child under age five. The variables that were found to have a significant positive correlation with family child care prices include fair market rent, CCAP expenditures per child under age five, average weekly earnings, median income and metropolitan status. (Davis, In publication) The 44 percent increase in CCAP spending from 1998-2004 is associated with a 3.3% increase in child care center prices and 1.4% increase in family child care prices from 1998-2004. A 3.3% increase over six years represents approximately six-tenths percent increase per year.

For example, in Hennepin County, the "predicted change in weekly price (adjusted for inflation) for preschool age children in centers...between 1998 and 2003 was 15 percent, according to the model. Of this 15 percent increase, nearly half (7.2) is associated with higher rent costs, nearly one-third (4.1) is associated with CCAP expenditures, and smaller fractions are due to increases in wages, center capacity and the proportion of the population under age five." (Davis, In publication) Findings are similar for Hennepin County family child care providers. (Davis, In publication) It is important to note that these amounts are over a six year period. The 4.1 increase associated with CCAP is the impact over the entire six years (or five periods of change) for an annual rate of change of .82 of a percent.

Putting this finding in dollar terms, the predicted weekly rate for preschoolers would be about $150 in 1998 and about $174 in 2004. Based on the regression results, the $24 increase can be divided into components associated with each of the variables in the model. About half of the $24 is associated with rent increases ($11.52), about one quarter with CCAP ($6.55), and smaller amounts associated with increases in wages, center capacity and the population under age 5. On a per year basis, therefore, the increase in weekly price of child care associated with the increase in CCAP expenditures was about $1.30. (Davis, In publication) The example provided here is to bring the findings to a local level, but it still remains important to interpret these findings with caution as additional analyses are explored.

B. The cost of providing child care

The Legislature directed DHS to evaluate the cost of child care in Minnesota. The department believes that an informed understanding of the factors underlying the costs is essential when considering changes in the Child Care Assistance Program. The department engaged in two activities to learn more about child care costs: 1) research on the costs of operating child care centers, and 2) modeling of family child care budgets. Based on national research, labor costs are the largest portion of any child care center's budget. (Cost, Quality and Outcomes Study Team, 1995)

The department, through a contract with Policy Studies, Incorporated, conducted research on child care center costs.

The study built on national studies which identify the costs and revenues in providing child care from the perspective of a center. Findings in Minnesota are similar to those in other states and the nationally representative Cost, Quality and Outcomes study. See Figure 8 for statewide costs and revenues per child hour.

Figure 8 – Costs and revenues per child hour

Cost Item	Costs Per Child Hour
Wages	$1.673
Non-wage staff benefits	$0.281
Contract Labor Costs	$0.009
In-kind Classroom Labor	$0.001
Professional Development	$0.021
Administration/Program Support	$0.137
Transportation	$0.034
Supplies	$0.230
Insurance (not including staff benefits)	$0.045
Advertising/Marketing/PR	$0.040
In-kind Program Support	$0.087
Food	$0.163
In-kind Food	$0.003
Facility (excludes one-time costs)	$0.644
In-kind Facility	$0.066
Lost Revenue	$0.040
Total Expended Costs (exclude in-kind)	**$3.317**
Total In-kind	**$0.158**
Full Cost Per Child Hour	**$3.475**
Revenue Item	**Statewide Revenue per Child Hour**
Tuition and Fees paid by Parents	$2.398
Child Care Assistance	$0.787
Other Government Revenue	$0.000
USDA Food Program Revenue	$0.067
Tuition paid by Private Organizations	$0.005
Donations	$0.082
Investment Income	$0.001
Other	$0.011
Total Revenue Per Child Hour	**$3.350**

The statewide average cost per child hour is $3.317 and revenue per child hour is $3.350 for a profit of three cents per child hour – or almost one percent. This average profit is not statistically different than the point at which cost and revenue is equal. In other words, the average center is operating on the edge.

The statewide average cost per child hour is $3.317 and revenue per child hour is $3.350 for a profit of three cents per child hour – or almost one percent. This average profit is not statistically different than the point at which cost and revenue is equal. In other words, the average center is operating on the edge. When in-kind services[11] are included in the calculation there is a loss per child hour of 12.5 cents. This average loss is also not statistically different than the point at which cost and revenue is equal. In other words, the average center is operating on the edge. While some sites may elect to not pay for all in-kind services if payment was required, this protocol follows the process of past research in this area.

In the metropolitan area, the average profit is 2.7 percent. In the rural areas in the study, the average loss is 5.1 percent. These are not statistically different than the point at which cost and revenue is equal. In other words, the average center is operating on the edge.[14]

The sample[12] consisted of child care centers randomly selected in the seven county metropolitan area and the twenty-two surrounding counties.[13] Rural centers were over sampled to allow for comparability between areas of the state. Resources did not allow for all 80 rural counties to be included in the survey. Rural findings may or may not be representative of counties outside of the twenty-two surveyed. The final response rate for the two sub-samples were 80 percent (n=45 out of 56 contacted) in rural and 57 percent (n=43 out of 75 contacted) in the metropolitan area. Findings are based on 87 child care centers. After review, researchers determined that one metropolitan area response could not be used. These response rates are similar to other studies.

In the metropolitan area, the average profit is 2.7 percent. In the rural areas in the study, the average loss is 5.1 percent. The average metropolitan profit and average rural loss are not statistically different than the point at which cost and revenue is equal. In other words, the average center is operating on the edge.[14] The department is in the process of exploring options to follow up with sites showing losses while maintaining their confidentiality. Neither figure includes in-kind services, which would decrease the profit or increase the size of the loss. Calculations are based on child full time equivalents (FTEs). See Figure 9.

Figure 9 – Mean monthly budget per child by location

Budget Item	Statewide* (n=86) Dollars	Rural (n=45) Dollars	Metropolitan (n=41) Dollars
Expenses			
Labor Costs	$383.61	$309.33	$418.56
Program Costs	$99.09	$59.84	$117.56
Food Service Costs	$31.96	$25.66	$34.92
Facility Costs	$125.88	$63.99	$155.00
Lost Revenue	$7.87	$8.38	$7.63
Total Cost	$648.40	$467.19	$733.68
Revenues			
Tuition paid by Parents	$460.54	$327.82	$523.00
Parent Fees	$8.19	$4.21	$10.06
Child Care Assistance	$153.81	$62.64	$196.72
Other Government Revenue	$0.05	$-	$0.08
USDA Food Program Revenue	$13.16	$10.14	$14.58
Tuition paid by Private Organizations	$1.01	$1.85	$0.62
Donations	$15.96	$37.19	$5.97
Investment Income	$0.10	$0.06	$0.11
Other	$2.08	$0.71	$2.72
Total Revenue	**$654.90**	**$444.62**	**$753.86**
Profit/(Loss) per Child	**$6.50**	**$(22.57)**	**$20.18**

Note: 22 counties are represented in the rural category due to resource constraints. This may or may not be representative of the remaining rural counties. Metropolitan and rural profit/ (loss) levels are not statistically different than the point at which cost and revenue is equal.

*** Statewide figures are weighted for the distribution of centers across the sampled counties.***

The top three costs are labor, facility and food. The top revenues are parent fees, child care subsidies and donations. There are statistically different costs for labor, professional development, facilities, supplies, advertising/marketing/public relations, in-kind support and food between the metropolitan and rural areas. These are factors in creating the statistically significant difference in the total costs per child hour between the metropolitan and rural parts of the state. See Figure 10 below. Rural areas appear to have more in-kind support in the area of aids and facility support. Staff in rural areas also spend more time in fundraising activities.

Figure 10 – Statistically significant differences in center budgets, rural and metropolitan areas

Budget Item	N	Statewide (n=86)	Rural (n=45)	Metropolitan (n=41)
Expenses				
Wages	Mean	1.673*	1.396	1.804
	STD		0.665	0.85
Non-wage staff benefits	Mean	0.281*	0.183	0.326
	STD		0.153	0.315
Contract Labor Costs	Mean	0.009*	0.002	0.012
	STD		0.009	0.032
In-kind Classroom Labor	Mean	0.001*	0.003	0
	STD		0.005	0.001
Professional Development	Mean	0.021*	0.012	0.025
	STD		0.01	0.022
Administration/Program Support	Mean	0.137*	0.038	0.184
	STD		0.067	0.219
Transportation	Mean	0.034	0.036	0.033
	STD		0.075	0.056
Supplies	Mean	0.230*	0.158	0.264
	STD		0.172	0.255
Insurance (not including staff benefits)	Mean	0.045	0.038	0.048
	STD		0.027	0.05
Advertising/Marketing/PR	Mean	0.040*	0.024	0.048
	STD		0.027	0.041
In-kind Program Support	Mean	0.087*	0.224	0.023
	STD		0.437	0.041
Food	Mean	0.163*	0.131	0.179
	STD		0.079	0.097
In-kind Food	Mean	0.003*	0.009	0
	STD		0.023	0.002

(Figure 10 continued on next page)

(Figure 10 continued from page 28)

Budget Item	N	Statewide (n=86)	Rural (n=45)	Metropolitan (n=41)
Expenses				
Facility (excludes one-time costs)	Mean	0.644*	0.327	0.793
Excludes one-time	STD		0.257	0.745
In-kind Facility	Mean	0.066*	0.134	0.034
	STD		0.174	0.116
Lost Revenue	Mean	0.04	0.043	0.039
	STD		0.051	0.041
Total Expended Costs	**Mean**	**3.317***	**2.387**	**3.755**
(excluding in-kind)	**STD**		**0.92**	**1.811**
Total In-kind	**Mean**	**0.158***	**0.371**	**0.057**
	STD		**0.476**	**0.151**
Full Cost Per Child Hour	**Mean**	**3.474***	**2.757**	**3.812**
	STD		**0.951**	**1.828**

Note: 22 counties are represented in the rural category due to resource constraints. This may or may not be representative of the remaining rural counties.
****Amounts are statistically different between Metropolitan and Greater Minnesota Rural (< 0.05)***

A number of sites have implemented strategies to contain costs. These sites strive to balance the need to contain costs with maintaining their enrollment. They have worked to maintain competitive ratios and enroll part time children to assure operating at maximum capacity. Other sites have reduced the hours of operation. A number of sites increased fundraising activities. All of these actions may serve to keep rates lower, but there is an unknown impact on long-term financial stability of the programs, or their ability to support families to meet the CCAP goals of economic stability and school readiness. (See section VA6 for a discussion of research on school readiness).

Work conducted through a separate research project identified that child care centers pay more to staff with higher levels of education.[15] This may increase the overall price of child care, depending on other center resources. Higher levels of staff education have been tied to better child care quality and more positive outcomes for children (see literature review of school readiness section VA6).

A study of Minnesota family child care provider budgets was not feasible. However, the information from the center cost of care study was used to model family child care budgets along with information from previously published work[16] updated for Minnesota through calendar year 2003. Estimates were also created for metropolitan and rural areas. See Figure 11. This work is based on a mean of 4.7 child FTEs as cited in Helburne et. al. and 55 percent of providers had an average of 1.8 of their own children in addition to the 4.7 child FTEs for an overall average of 5.6 children.

Income and expenses in the report are based on the 4.7 child FTEs. Costs may be more or less, depending on the number of children enrolled. The average Minnesota licensed family child care home has 8.5 children enrolled[17] as of December 2004. See Appendix F for a description of the methodology used to develop the family child care budget. Note that if a family child care provider does not have employees, those funds could be reallocated to another line item, including net income. Also, the average Minnesota family child care provider works eleven hour days, five days per week, fifty weeks a year – with an additional eleven hours per week after the children leave for shopping, cleaning and doing laundry. (Chase, April 2001)

Figure 11 – Family child care provider median budgets, updated to December 2003

Budget Line	Percent of Income	Statewide	Rural	Metropolitan
	%	$	$	$
Revenue				
Parent Fees and Reimbursements	91.00%	$23,806.14	$17,892.73	$29,538.03
Child and Adult Food Program	9.00%	$2,362.56	$1,826.26	$2,851.60
Total	**100.00%**	**$26,168.70**	**$19,718.99**	**$32,389.63**
Expense				
Food for children	12.50%	$3,276.93	$2,532.85	$3,954.92
Employees (Asst. & Substitutes)	9.80%	$2,572.44	$1,986.15	$3,101.27
Household Supplies	2.50%	$661.79	$511.89	$799.30
Toys, materials, equipment & equipment repairs	3.40%	$885.96	$683.89	$1,067.86
Repairs, remodel, furniture and interest	4.70%	$1,238.19	$956.22	$1,493.09
Transportation/Mileage	1.40%	$352.24	$272.33	$425.23
Miscellaneous Business Expenses	6.40%	$1,686.50	$1,304.31	$2,036.61
Total	**40.70%**	**$10,674.05**	**$8,247.64**	**$12,878.28**
Net Income	**59.30%**	**$15,494.65**	**$11,471.35**	**$19,511.35**
Indirect Expenses				
Prorated Rent/Mortgage, Utilities	12.10%	$3,176.65	$2,457.09	$3,836.62
Social Security Employer Share	2.50%	$661.74	$511.89	$799.30
Total Indirect Expenses	**14.60%**	**$3,838.39**	**$2,968.98**	**$4,635.92**
IRS Taxable Income	44.70%	$11,656.26	$8,502.37	$14,875.43

Source: 1993 Economics of Family Child Care Study with additional analysis by DHS

The income figures above in Figure 11 are based on annual income. This data is disaggregated to hourly information with calculations noted to allow for comparable information to the center study discussed above and below. Dividing IRS taxable income by 3,000 hours of work per year calculates an average hourly provider wage of $4.95 in the metropolitan area and $2.83 in rural Minnesota. This is based on an average of 60 hours per week (Helburne et. al., 2002) for 50 weeks per year (Chase, 2001).

Dividing IRS taxable income by 3,000 hours of work per year calculates an average hourly provider wage of $4.95 in the metropolitan area and $2.83 in rural Minnesota.

Analyzing the cost per child contact hour, assuming 14,100 child hours[18] per year, the direct expenses excluding provider income are 91 cents in the metropolitan area and 58 cents in rural areas. In addition, family child care providers are allowed to report certain indirect expenditures for tax purposes. While these items are not a direct child care expenditure for the provider, these are costs to the provider. Adding in-direct expenses into the calculation translates to expenses of $1.24 per child hour in the metropolitan area and 80 cents in rural areas. IRS taxable income per child hour is $1.05 in the metropolitan area and 60 cents in rural areas.

It is not appropriate to extrapolate information reported above beyond the 4.7 child FTEs to Minnesota's average family child care home with an enrollment of 8.5 children without further information on the average number of child FTEs and the average number of the provider's own children in the 8.5 enrolled children.

Analysis was completed comparing the income and expenses for center care and family child care. Analysis was done using the center cost study data and the family child care budget work, both showing revenue and expenses for each type of care setting.

In comparing the revenue sources as a percentage of total income to the center cost study findings, the results are fairly similar. See Figure 12. The center cost study provided great detail on the sources of funding. The revenue received by centers can be grouped into two large categories, those being tuition payments (by all available sources such as parents, grants, donations, etc) and food program support. When comparing these two sources, as shown in the table below, both types of care facilities receive most of their revenue from fees for providing child care.

Figure 12 – Revenue comparison, center and family child care

Revenue	Center Statewide Average	CY03 Family Child Care Average
Revenue received for tuition from all sources include parent fees, grants, donations, etc.	97.99%	88.20%
Food Program Support	2.01%	11.80%
Total	**100.00%**	**100.00%**

Note: These are FCC averages to parallel the center study. The budget chart was based on the median.

For both center costs and family child care costs the largest percentage of expenditures is labor costs. When comparing the expenditures for a center based child care program and a family child care program, labor represents a slightly higher labor percentage of total costs for family child care.[19] See Figure 13. In addition to the slightly higher percentage of labor costs, there are two other notable differences in the other costs. Within the center program, the facility costs were a much larger percentage of the total expenditures. This is to be expected as centers incur direct costs for their facility. This difference will create differences across all expense percentages due to the fact that facility costs are a significant factor in a center's budget. The food service costs represented a larger percentage of total expenditures within the family child care budget.

Figure 13 – Expenditures comparison, center and family child care

Expenditures (includes only the Social Security Employer Share of indirect on the Family Child Care Budget)	Center Statewide Average	CY03 Family Child Care Average
Labor Costs	59.16%	66.67%
Program Costs	15.28%	14.76%
Food Service Costs	4.93%	13.48%
Facility Costs	19.41%	5.09%
Lost Revenue	1.21%	N/A*
Total	**100.00%**	**100.00%**

See footnote regarding a provider's decision to care for her own or a paying family's child.

Analysis was completed showing the family child care budget median adjusted for the metropolitan area and rural areas based on relative median income. The percentage of the budget for each line item remains the same. Labor, including net income, in both the metropolitan and rural areas is the largest percentage of total costs. The net income for the provider (the provider's salary) range from $12,000 per year in the rural area to slightly higher than $19,000 in the metropolitan area.

Details on the methodology used to develop family child care budgets is found in Appendix F.

V. Cost containment

A. Analysis

1. Federal regulations

As noted previously, the Child Care Development Fund includes policy requirements that states must meet. Understanding these parameters is important to assessing potential CCAP policy changes. These parameters include the responsibilities for a) ensuring parental access to all types of care available to the private market, and b) conducting a rate survey every two years. The rate survey must be conducted every two years although the states are not required to update maximum rates based on the most recent rate survey. (45 CFR 98.43)

The Child Care and Development Fund regulations requires:

(a) The Lead Agency shall certify that the payment rates for the provision of child care services under this part are sufficient to ensure equal access, for eligible families in the area served by the Lead Agency, to child care services comparable to those provided to families not eligible to receive CCDF assistance or child care assistance under any other Federal, State or tribal programs.

(b) The Lead Agency shall provide a summary of the facts relied on to determine that its payment rates ensure equal access. At a minimum, the summary shall include facts showing: (1) How a choice of the full range of providers, e.g. center, group, family, and in-home care, is made available; (2) How payment rates are adequate based on a local market survey conducted no earlier than two years prior to the effective date of the currently approved Plan; (3) How copayments based on a sliding fee scale are affordable, as stipulated in 98.42.

The Child Care Bureau at the U.S. Department of Health and Human Services has not identified a floor for setting a rate that would meet the equal access requirement. Instead, the Child Care and Development Fund regulations state:

> In establishing payment rates we suggest a benchmark for States to consider. Payments established at least at the 75th percentile of the market would be regarded as providing equal access. States have already recognized that rates set at the 75th percentile-the payment level formerly required in the title IV-A child care programs-provide equal access. Comparisons of state CCDBG [Child Care and Development Block Grant] and IV-A child care plans revealed that the majority of States used the same payment rate- the 75th percentile IV-A rate- for both programs even though there was not a requirement to pay at the 75th percentile for CCDBG-funded care, only the requirement that CCDBG rates provide equal access. This same requirement continues unchanged in these regulations for the CCDF.[20]

The *Child Care and Development Block Grant,* SEC. 658I, and the *Child Care and Development Fund; Final Rule,* 45 CFR Parts 98 and 99, Sec. 98.92, both address the consequences if a state is found to be out of compliance. If a state fails to substantially comply with the Act, the implementing regulations, or the Plan, one of the following penalties will be applied:

(1) The Secretary will disallow the improperly expended funds;

(2) An amount equal to or less than the improperly expended funds will be deducted from the administrative portion of the State allotment for the following fiscal year; or

(3) A combination of the above options will be applied.

In addition to imposing the penalties described above, the Secretary may impose other appropriate sanctions, including: (1) Disqualification of the Lead Agency from the receipt of further funding under the CCDF; or (2) A penalty of not more than four percent of the funds allotted under Sec. 98.61 (i.e., the Discretionary Funds) for a Fiscal Year.

The Department of Human Services requested further guidance from federal Health and Human Services staff to determine how they would assess whether the parental access requirement is being met if rates are set below the 75th percentile of the current market survey. The federal Child Care Bureau did not respond with a clear-cut test of whether access exists. Rather, they stated that their "mechanism for reviewing and monitoring this is basically two-fold: 1) an assessment and suggestions for change during the State Plan approval process, and 2) when (they) receive a complaint about the equity of the program." They further explained that reviewing the complaint would involve determining whether lack of access was systemic throughout the state system as a result of the policies adopted and applied.

2. Child care assistance in other states

States are required to submit a Child Care and Development Fund (CCDF) plan every two years. The information from these plans is used to assess whether states are complying with federal laws and regulations. Information from state plans effective on October 1, 2003 has been synthesized by the National Child Care Information Center (NCCIC). States may have amended their plans since then. Amendments would not be reflected here. Information submitted includes copayment, eligibility and reimbursement rate levels. See Appendix G.

a. Rates

Summary information about the 2004-05 plans indicates that in most states, reimbursement rate ceilings remained constant from 2002 to 2004 in dollar amounts. In each age range, at least 65 percent of the states examined showed no change in the maximum rate. Twenty-three (23) states indicated that they cap reimbursement rates at the 75th percentile of either a current or historical local market rate survey or higher. However, eight states reported that rates were established at the 75th percentile of a prior year survey.

b. Eligibility

An analysis of trends in state eligibility policies by the Child Care Bureau for 2004-05 identified several trends in eligibility parameters. Twenty-six states reported income eligibility ceilings expressed as a percentages of SMI that are *lower* than those reported in the FFY 2002-03 CCDF Plans. For states that decreased their eligibility, the median decrease was six percent of State Median Income (SMI). Twelve states reported income eligibility ceilings that are higher than those reported in the FFY 2002-2003 CCDF plans. For states that increased the eligibility, the median increase was nine percent of SMI. Average income entrance eligibility is at 59 percent SMI in 2003. Minnesota is below this level at 44 percent SMI for income entrance, but slightly above it at 63 percent SMI for its exit point.[21] Minnesota is ranked 33rd comparing entry eligibility and seventh comparing exit points ranked by the Federal Poverty Level as reported in the 2003 federal plans.

When considering only the seven states that have split entry and exit levels (i.e., families must be below a certain level to enter the program, but can remain in the program until they meet a higher income level) and ranking from highest to lowest, rankings vary based on whether SMI or federal poverty level (FPL) is used as the standard. For entry, if SMI is used, Minnesota ranks seventh; if FPL is used, Minnesota ranks third. For exit, if SMI is used, Minnesota ranks third; if FPL is used, Minnesota ranks second. (The Child Care Bureau document Trends in State Eligibility is included as Appendix H.)[22]

c. Cost containment

Discussions with other states indicate that they are introducing a number of policies to contain costs in response to state budget restrictions. The options typically include reducing the rates paid to providers, not implementing new rates, decreasing eligibility levels and adjusting co-payments. A small number of states are looking at the impacts of these decisions, including Wisconsin, Maryland, Ohio and Montana. Minnesota will be reviewing these studies as they are released.

Overall, Minnesota policies on a statewide basis are in line with minimum requirements established in CCDF regulations. While federal regulations should provide parameters for assessing future changes, Minnesota policy should be assessed on the degree to which it supports policy goals.

Overall, Minnesota policies on a statewide basis are in line with minimum requirements established in CCDF regulations. While federal regulations should provide parameters for assessing future changes, Minnesota policy should be assessed on the degree to which it supports policy goals.

3. Other programs within DHS

Policies from the following programs within the department were reviewed: nursing homes, group residential housing, services for children with disabilities, self-directed services for the elderly, food support, and public health insurance programs. The examination of public health insurance programs included of copayments, rates, premiums, and TEFRA fees policies (TEFRA is a program for children with disabilities). The intent of this review was to learn whether rate-setting or cost-sharing strategies exist in other programs that could inform policy in CCAP. Similarities in goals do exist. The health care insurance programs attempt to provide for a gradual increase in family share of costs. The nursing home policy division has invested significant time in a proposal to strengthen the connection between payments and quality. There are differences, however, which limit applicability.

"Value-Based Reimbursement: A Proposal for a New Nursing Facility Reimbursement System" offers some valuable insights about how to reward those that provide high-quality services in an efficient manner. It addresses

Medical Assistance (MA) payments to nursing homes. It raises the possibility of redistribution of existing funds within a system in a way that supports the goals of quality and efficiency. However, while the concern about purchasing quality services exists in both child care and nursing home funded programs, the markets in which care is purchased differs significantly. The child care market is significantly larger than the nursing home market. At the time of the review, there were about 420 certified and/or licensed nursing homes in Minnesota. In child care, there were 14,795 licensed providers as of October 7, 2004; CCAP also pays for care in legal non-licensed homes. The portion of the market controlled by the respective programs is also very different. Most nursing homes cannot afford to turn away MA clients, because MA policy pays for 63 percent of the nursing home market. Child care providers can choose not to accept families on child care assistance, and it is likely that in areas with a significant number of non-subsidized families, rate policy that is considered overly restrictive might increase the number of providers who do not accept subsidy families, thereby reducing access. CCDF requires CCAP to pay rates that are based on the private market. The lessons from the nursing home funding proposal therefore provide a context for considering combining rates with quality indicators in CCAP rather than specific policy direction. The nursing home summary is included in Appendix I.

4. Market changes in service-based industries

This section examines market changes in other service-based industries in order to determine whether they are similar to changes in the child care market. The Producer Price Index (formerly the Wholesale Price Index), published by the Bureau of Labor Statistics, measures the average change in prices received by producers for their products at the national level. The PPI is the producer side of the Consumer Price Index (CPI) that measures the price of products or services to the consumer.[23] Several fields were selected for comparison, based on their reliance on labor in the cost of production and their estimated reliance on public subsidies in relation to child care. See Figures 14 and 15. Home health care, nursing care facilities, nursing homes and adult daycare were specifically selected for their close parallels with the education requirements for staff to child care facilities. While home health care services and nursing care facilities rely more on public subsidies than child care, they are similar services and included for comparison.[24]

Figure 14 – PPI data: national annual percentage changes by service sector

Yearly	Home Health Care	Building Cleaning and Maintenance Services	Nursing Care Facilities
1998	2.8	1.1	4.3
1999	0.8	2.3	3.8
2000	3.7	3.1	5.6
2001	2.6	4.5	6.3
2002	2.3	1.3	3.8
2003	0.3	0.1	3.3
1998-2003	10.2	11.6	24.9
Average annual change	1.7	1.93	4.2

Figure 15 – CPI data: national percent changes by sector

Yearly	Child Care & Nursery School	Nursing Homes & Adult Daycare	Domestic Services
1998	4.9	4.2	3.3
1999	5.1	4.7	3.5
2000	5.6	4.9	4.5
2001	5	4.5	2.9
2002	4.9	4.4	4
2003	4.1	5.8	2.6
1998-2003	27.3	26.8	18.7
Average annual change	4.6	4.5	3.1

Most of these CPI rates were not available annually, so the rates listed are the figures for December of each year.

Based on the review of the CPI/PPI information, in conjunction with the findings presented in section IVA2, the changes in Minnesota's child care prices are in the same direction as increases in other service-based industries' costs and prices. It most closely tracks with nursing care facilities and adult day care services. Also, Minnesota's private child care price changes (five to six percent as presented in section IVA2) appear to mirror national private child care market price changes. This implies child care rates in Minnesota are following national trends (27.3 percent across the years or an average of 4.6 percent annually).

National analysis of the child care market

The Urban Institute's National Survey of American Families project analyzed the price of child care across a sample of states, including Minnesota. These states were selected for their geographic and economic diversity. This study was published in 2000 and used data from 1997. When the price of child care is calculated as a percentage of earnings for families that pay for care prior to taxes, Minnesota is either at, or slightly under, the national average across a number of different groupings as of 1997. This study included families that accessed CCAP and those that did not. The overall percentage of earnings that goes to child care in Minnesota was slightly under the national average (8.5 percent vs. nine percent). For families with children under age five that paid for care, 10 percent of their earnings went to child care, which matches the national average. See Figure 16. Families with low incomes pay a higher proportion of their income for child care. For single parent families, 15 percent of their earnings went to child care, compared to 16 percent nationally. For low income families (under 200 percent FPG) that paid for care, 15.7 percent of their income went to child care, which is slightly less than 15.9 percent nationally.

Figure 16 - Average monthly child care costs and percentage of earnings used for child care, by state

State	Amount Charged	Percent of Income
Mississippi	$209	9.20%
Florida	$239	8.90%
Alabama	$241	9.50%
Texas	$268	8.50%
Wisconsin	$279	8.70%
Michigan	$285	10.20%
United States	$286	9.20%
Washington	$300	8.60%
Minnesota	$315	8.50%
New York	$332	11.40%
California	$242	10.80%
New Jersey	$362	9.10%
Massachusetts	$370	10.30%

Source: Urban Institute, National Survey of American Families

Data from the Bureau of Labor Statistics (BLS) Occupational Employment statistics (OES) for child care workers[25] identifies the unadjusted changes in wages from 1998 to 2003 for Minnesota, and at the national level. In 2003, the Minnesota average hourly wage was $8.39 and the national average $8.37. Surrounding states,[26] mean average hourly wage was $7.20 - $9.06. While Minnesota's wages for child care workers are listed second or third for surrounding states, depending on the year, the level of increase in the wages is not uniform across states. Information is not available for licensed or unlicensed family child care providers, as they are defined as self-employed. In Minnesota, child care workers' mean hourly **wages** increased 9.67 percent versus the 17.39 percent national average between 1998 and 2003.[27] An annual average of change in Minnesota is 1.6 percent versus 2.9 percent nationally for this time period. This is different from the estimate of the amount of **rate** changes between 1998 and 2003 (5 percent-6 percent unadjusted). Child care workers in surrounding states experienced wage increases ranging from a 1.3 percent annual average increase (South Dakota) to a 3.8 percent annual average increase (North Dakota) between 1998 and 2003.

5. Literature review on the links between job and child care stability

In the language authorizing this study, the Legislature directed the commissioner to consider the impact any recommendations might have on work incentives. In order to fulfill this directive, department staff conducted a literature review. This section includes findings from that review.

The work participation rate of single mothers with children nationwide rose from 69 percent in 1995 to 78 percent in 2001.[28] Minnesota has one of the highest workforce participation rates of all mothers with young children (72.4 percent) based on the 2000 Census and additional analysis conducted by the Legislative Commission on the Economic Status of Women (February 2004). Families make employment choices based on the job opportunities and type of child care available.

Do child care-related factors influence parents' incentive to work?
CCAP subsidies support work participation of families with low incomes (up to 175 percent of the Federal Poverty Guidelines for program entry, up to 250 percent FPG after program entrance) as they seek to transition to economic stability. A recent study from Michigan (Hofferth & Collins, 2000) examined a number of factors related to job stability, including social resources, education levels and child care factors. There are suggestions of what may play a role at the family level even though the study states that no county-level aggregated child care market factors (fees, average ratios or number of programs) significantly impact the probability of a mother exiting work. Some of these family level variables could be influenced by CCAP policies. The following is a summary of the results for the factors related to child care that may play a role at the family level.

Local access to child care plays a large role in family income stability. When child care options are within ten minutes, mothers of **all income groups** are more likely to remain at their position. This speaks to the infrastructure needs in all communities. Also, most mothers are likely to leave a job when child care ends. Only low-income mothers will remain in their position **if** another child care option is **quickly** available. If a low-income mother is required to be on a waiting list, this may impact her ability to remain employed. Low-income working families need quick access to child care assistance that allows them to access the private market. Additional work, referred to below, discusses the level of expenditures that begin to impact work decisions. This speaks to the need for families to have access to child care subsidies based on their income, not based on their enrollment in MFIP/Diversionary Work Program (DWP).

At what level of child care expenditures do parents lose their incentive to work relative to wages?
Family costs, or expenditure levels, are related to, but different than the market **price** for child care. Families combine a number of strategies to pay for care. While Hofferth and Collins found that there is no impact on a mother's likelihood of leaving work based on the market price of child care while controlling for metropolitan status, Maume's finds a relationship between the likelihood of leaving work and child care **expenditures**. Maume found that each $10 increase in weekly child care expenditures is correlated with a 1.6 percent increase in the probability of a mother leaving her job one year later, regardless of income status.[29] This finding is based on data from the Survey of Income and Program Participation (SIPP) at the Census Bureau on a nationally representative sample in 1985 of women 15-45 years old with at least one child. Maume's study was released in 1991. Hofferth and Collins expanded on this work approximately one decade later and refined the way of examining the impact of costs by income categories by adding more categories and indexing costs to earnings. Hofferth and Collins found that there is no impact of cost of child care on leaving work when the cost is at 6.5 percent of actual wages for mothers with high incomes or at 7.1 percent of actual wages for mothers with low incomes. The impact on leaving work begins at 9.1 percent of actual wages for mothers with

moderate incomes. As previously stated, the Urban Institute found that Minnesota's average ratio of child care expenses to earnings was 8.5 percent. Minnesota indexes the copayment schedule as a percent of income in 1997 (See Appendix J for Minnesota's copayment schedule).[30] Copayment changes enacted by the 2003 Legislature resulted in significant copayment amounts required of parents at the upper end of the copayment schedule, which may equate to moderate income families. For example, a family with an income of 200 percent of the federal poverty level would have a copayment equal to 12.25 percent of income. A family with an income of 249 percent of the federal poverty level would have a copayment equal to 22 percent of income.

The Michigan study also revealed that, among child care users, those who received a child care subsidy were less likely than non-subsidy families to stop using care and worked more months over a year than those who relied on unsubsidized child care. (Danziger, Oltmans Ananat & Browning, November 2003).

Others have gone even further, detailing the relationship between child care subsidy and work participation using 1993 and 1996 SIPP data. Single mothers who received help with child care expenses for several years after receiving welfare were still employed two years later (52.5 percent) at a higher level than single mothers who did not receive help with child care expenses (37.7 percent). (Boushey, 2002) Similar trends were identified for former welfare participants. Those that received help with child care costs were more likely to be employed two years later than welfare participants who did not receive help (34.9 percent versus 19.2 percent).

Are families accessing child care assistance less likely to apply or return to cash welfare than unsubsidized families?

Witte and Queralt (2003) examined changes in Rhode Island's child care subsidy program over four years and the resulting changes in workforce participation. Expanding income and age eligibilities while updating rates to formal centers, increased the likelihood that families would work more than twenty hours per week, use child care subsidies and leave welfare for work. Also, the child care reforms in combination with welfare reforms, "almost tripled the probability that a typical head of household currently or formerly receiving welfare would work 20 or more hours per week" - from seven percent in 1996 to 22 percent in 2000. These reforms also "halved the probability that a single mother in the sample would be on cash assistance and neither working nor in some other approved activity" during the same time frame. National Bureau of Economic Research (NBER) Working Paper 9693, Abstract, May 2003. The use of regulated care increased for families of all sizes. The use of regulated family child care increased the most percentage points of all regulated care settings. (Witte, Queralt and Long, March 2004).

The 2002 National Survey of American Families (NSAF) identified that there is a lower return rate to Temporary Assistance to Needy Families (TANF) for families that access child care assistance than those who do not (19.5 percent vs. 27.7 percent). (Loprest, 2003) This replicated similar findings from analysis of 1999 NSAF data that also identified a lower rate of

State policy goals for promoting economic stability are supported most effectively when parents have access to affordable child care that supports their employment needs.

return to TANF for families that access child care assistance than those who do not (14.7 percent vs. 24.7 percent). This is a striking finding, when only 20 percent of former TANF recipients reported receiving child care assistance during the first three months after leaving welfare, according to NSAF. (Loprest, 2002) Similar information on the rate of return may exist for Minnesota. We do know that there is a portion of the MFIP caseload that has child care costs, but does not seek subsidy.[31] All of these findings suggest an intricate relationship between TANF and CCDF policies and a possible area to strengthen connections for those who leave TANF.

The department is tracking the reasons why individuals apply for MFIP. This information will be gathered from participating counties twice a year. Child care needs were the fourth most common reason noted out of 15. The most common reason was loss of job, the second most common was the need for help with health care costs, and the third was had baby/became pregnant.[32] For families with children under six, help paying for child care was the most common reason cited on the "Reasons for Application to MFIP" study. These findings are similar to previous work in Hennepin County and the MFIP Longitudinal Study Baseline Report.

Summary of literature review on the link between job and child care stability

State policy goals for promoting economic stability are supported most effectively when parents have access to affordable child care that supports their employment needs. Child care subsidies create additional job and income stability. Child care subsidies operate within the local market. This means that parents across all income groups need to be able to find and afford child care while they work. State level policy needs to reflect this local context for families accessing CCAP. Parents' ability to pay child care costs (including co-payments) is sensitive to the percent of earnings expended to access child care (Hofferth and Collins, 2000). The level of support available to parents as they leave welfare impacts their ability to remain off of welfare in the future. A portion of clients who leave MFIP have child care costs but do not seek subsidy. This could be an area to focus on to reduce returns to MFIP/DWP.

6. Literature review on child development and school readiness

One of the program goals of the Child Care and Development Fund is supporting school readiness.

Neurons to Neighborhoods (Shonkoff & Phillips, 2000), a synthesis of decades of research in early childhood, describes the links between policy and practice to improve outcomes for children. It discusses how children are "born wired for feelings and ready to learn"[33] and the necessity of public policy to respond.

One of the conclusions is that "striking disparities in what children know and can do are evident well before they enter kindergarten. These differences are strongly associated with social and economic circumstances, and they are **predictive** (emphasis added) of subsequent academic performance."[34] Minnesota is currently experiencing these large disparities as demonstrated by the *Minnesota School Readiness Year Two Study.* The study ranked students as being at one of three levels: Not Yet which indicated that the child cannot perform a specific indicator, i.e. that the performance indicator represents a skill, an area of knowledge, or a specific set of behaviors or accomplishments that the child has not acquired. In contrast, In Process implies that the knowledge, skills or accomplishments are intermittent or emergent, and are not demonstrated reliably or consistently. Proficient means that the indicator is demonstrated reliably or consistently. The study found that in all domains:

- Children "of parents with the least amount of education (less than high school) were three times as likely or more to have a "not yet" rating than the [children] of parents with the most education (Bachelor's or graduate or professional school degree). These differences are particularly pronounced in mathematical thinking and language and literacy, where differences in percentage of "not yet" ratings are over five times greater for the children of parents with the least amount of education compared to the children of parents with the most education."[35]

- Children "in the lowest of the four income categories ($0-$35,000) were over twice as likely to have a "not yet" rating than the students in the highest of the four income categories."[36]

Children with risk factors such as parents with low educational levels and/or lower family incomes have been shown to benefit from high quality early learning opportunities with comprehensive services. Landmark research experiments such as the High/Scope Perry Preschool Study, the Abecedarian Program and the Chicago Child Parent Center study have demonstrated better school readiness outcomes for low-income children receiving high quality early learning services than for those who did not. While these projects were all center-based, quality early learning can happen in a number of different environments.[37]

Quality early learning opportunities exist in child care centers, licensed family child care homes and with family, friends or neighbors. Quality early learning experiences are most likely to occur in environments that have intentional curriculums and stable, responsive providers with formal training or education in early childhood development.[38] In child care centers, these markers of quality are required in programs that receive accreditation from national bodies such as the National Association for the Education of Young Children. In family child care, these markers of quality are referenced in the National Association of Family Child Care accreditation process.

A recent study by the Minnesota Department of Human Services examined the school readiness of preschoolers approaching kindergarten in 22 accredited child care centers in Minnesota.[39] Children from low-income households ($0 - $35,000 annual earnings) and those with parents who had lower educational levels (a high school degree or less) had school readiness ratings of "in process" or "proficient" at the same levels as children from households with higher incomes or more highly educated parents. While the study centers were not randomly selected, these findings are consistent with more rigorous research in this area that show a relationship between high quality early learning settings and school readiness.

Access to child care that meets established standards may show significant improvement in school readiness for children from families with low incomes.

Recommendations from the *Neurons to Neighborhood* and *Eager to Learn* report focus on ensuring supports for child development across the developmental domains encompassing language and literacy, mathematical thinking, the arts and personal, physical and social development. While several recommendations from *Neurons to Neighborhoods* focus on the need for more time for parents to be at home with infants, one recommendation specifically refers to the need for "enhancing parents' opportunities to choose from among a range of child care settings that offer the stable, sensitive and linguistically rich care-giving that fosters positive early childhood development."[40] Access to child care that meets established standards may show significant improvement in school readiness for children from families with low incomes.

There are important policies to consider based on the information above regarding the income disparities that are predictive of later academic success, which is itself a predictor of economic stability. Access to the full range of child care choices that exist in the private market and information to help parents choose sites that may best promote school readiness are critical issues for policy for low-income families.

B. Options available to track the impact of cost containment strategies

A number of data sources currently exist to monitor impact of changes in policy. Mechanisms to track family and child specific outcomes related to child care experience need to be developed and tested.

The legislative language directs the department to make recommendations to the Legislature for containing future cost increases in the child care programs under Minnesota Statutes 119B, in a manner that complies with federal child care and development block grant requirements for promoting parental choice and permits the department to track the effect of rate changes on child care assistance program costs, the availability of different types of care throughout the state, the length of waiting lists, and the care options available to program participants. A number of data sources currently exist to monitor impact of changes in policy. Mechanisms to track family and child specific outcomes related to child care experience need to be developed and tested. This section describes the monitoring activities in which the department will engage. The department will monitor the following administrative reports to inform analysis of strategies implemented on or after July 1, 2005. See Figure 17. Additional work may be done in conjunction with the Data Warehouse. The department plans to conduct a Child Care Use study in 2009. This may also provide an opportunity to gather information for comparison to results from 1999 and 2004. (See Appendix K for a full description of the options).

Figure 17 – Options to track the impact of cost containment strategies

***These items require development prior to implementation.**

Report	Availability	Information to inform Policy Directions
1. Monthly Average Cost per Family	Annual	Are there emerging trends across years?
2. Basic Sliding Fee Waiting List	Monthly	Are there emerging trends or cycles?
3. Child Care Resource & Referral Program Report	Every six months	Is there a change in providers' willingness to work with families accessing Child Care Assistance?
4. Family Profile	Annual	How does program participation by income level compare to income eligibility levels? Is there an income group not being served by the program?
5. MFIP Applicant survey	Every six months	What are the trends in who is applying for MFIP due to child care reasons?
6. Type of Care Selected (a)ACF 800-Annual Aggregate Child Care Data Report (b)Child Care Use	(a)Annual (b) Every five years	Are CCAP families selecting care in different patterns than the private market as compared to historical patterns?
7. School Readiness of Children in CCAP*	Requires development of child assessment tools that can be used by all child care providers.	What patterns emerge for children in CCAP by income level, parent education level? Do child outcomes vary by sub-program? If available, does stability of provider arrangements impact school readiness scores?
8. Length of Continuous Employment by Sub-program*	Post Minnesota Electronic Child Care (MEC2) statewide mplementation	Is the length of time that CCAP parents stay employed changing? Does this differ by sub-program?
9. Relationship between maximum rates and percent of providers rates accessible at the local level.	Following each rate survey.	What percent of provider's rates can be accessed without additional payment by parents? Do different regions have different levels of access to the same types of providers?

C. Cost containment options for the Child Care Assistance Program

The department convened a public committee to discuss possible strategies for containing costs. (See Appendix L for members). The group met once in late 2003 to discuss the various options and identify new avenues of research to identify additional ways to inform decisions about ways to contain costs. The committee recommended analyzing the cost of providing child care. The department released a Request For Proposals (RFP) and selected a vendor to analyze the cost of providing center-based child care. A sub-workgroup of the overall committee was convened to provide detailed input into the study design, focusing on the cost of providing child care in a center-based environment. The sub-workgroup met a final time in October 2004, to review the findings from this project and to suggest recommendations. The overall committee met a second time in late 2004 to review the available findings from the research on cost containment options.

Through the work described in the preceding sections of this report, the department narrowed the list to the following strategies that received significant consideration. The options for cost containment within CCAP fall into three categories:

- program refinements
- program restrictions
- systemic changes.

Advantages and disadvantages are identified for each strategy. They are assessed based on the report directive to contain costs, the program goals of supporting economic stability for families and school readiness for children, the federal Child Care and Development Fund requirement of access to care, and the legislative intent of creating price sensitivity in the program so that parents who choose the most expensive care bear a portion of the cost beyond their copayment. The strategies are also assessed based on individual characteristics of each strategy. An additional concept that could be explored once the program stabilizes could involve equalizing access to child care centers and family child care homes.

When each strategy is considered in combination with others, the results are less predictable and the stability of the program is decreased.

The analysis below raises issues regarding rates data. The first issue is what year will be used as the base for these proposals? Two rate surveys have been completed since the October – December 2001 survey that current rates are based on: October – December 2002 and February – April 2004. An additional survey will be conducted between February and April 2005. These surveys provide information about year to year changes in the private market. Whether the 2001, 2002, 2004 or future surveyed rates will be used as the basis for a new rate structure is addressed in the Recommendations section. In addition to being a policy decision, this is an analysis issue. In this report, the 2004 survey is used to determine the level of access to services in the strategies below. This best reflects the current market that families experience at the time of publication. Note that the percentile and percent of provider rates underneath the maximum are not the same. The level of access may have declined below figures reported if the private market increased since April 2004. If the 75th percentile of the 2004 market was implemented, 82-83 percent of provider's rates would be below the maximum. Where applicable, analysis distinguishing metropolitan/rural impact is included. Impact at the individual county level may differ from its metropolitan or rural status. Note that the percent of centers covered refers to the percent of slots covered unless otherwise noted.[41] Also note that when each strategy is considered in combination with others, the results are less predictable and the stability of the program is decreased. This analysis assumes the rate surveys will continue to be conducted annually.

*1. **Program Refinements*** are changes that will bring policy more in line with the private market or with other states. Proposals in this area include: limit absent days, establish a registration fee maximum for all counties, and reduce the percentage of the family child care rate used as the basis for legally non-licensed provider reimbursement.

Limit Absent Days: Limit the number of absent days available to be billed per child.

This policy change was proposed by the governor during the 2004 legislative session. Statute and rule do not limit the number of absent days that can be covered under the child care assistance program. This strategy would limit child care assistance payments for absent days to 25 days per child per year, including holidays. In addition, the strategy would discontinue payments for absent days that exceed ten consecutive days and would discontinue payments to legal non-licensed family providers for any absent days or holidays. Exceptions to these limitations would be made for children with documented medical needs so that children whose medical conditions increase their absenteeism are able to remain in child care and their parents are able to maintain jobs.

Advantages: It is important for publicly funded child care assistance programs to pay for some days a child is absent from child care to ensure adequate access to services and continuity of care for children. Most licensed child care centers have a policy that requires payment for days a child is absent from the center. However, it is also important to maximize funds by limiting the amount of money spent on services not used. This strategy attempts to mirror the pressures felt by families not receiving subsidized care, who make decisions about attendance based on the fact that they will pay for absent days. This strategy would contain costs.

Disadvantages: This policy could reduce the number of providers willing to care for children in subsidized care, since it might restrict days for which payment may be made. That would limit access. It also might mean that a provider would disenroll a child. This transition might have negative developmental consequences for the child and may threaten the job stability of the child's family. This will be difficult for counties to implement and track without an automated system.

Establish a registration fee maximum for all counties: CCAP can pay the cost of registration fees charged by providers to enroll children. Currently, 38 counties have a maximum registration fee set at the 75th percentile of the registration fees reported on the survey in the county. Forty-nine counties do not have a maximum, due to a limited number of providers reporting registration fees. In these counties, the providers that do have fees are paid in full without a cap. In these instances, a maximum could be created based on registration fees submitted as part of the survey on a regional or statewide basis.

Advantages: This proposal would equalize treatment of providers in terms of registration fees and would eliminate the opportunity for providers having only CCAP subsidized spaces to charge higher registration fees than they could charge in the private market. It is not likely that this strategy would have a significant impact on access, school readiness, or economic stability.

Disadvantages: This proposal will affect providers in some, but not all counties. The fiscal impact of this change would not be significant.

Reduce the percentage of the family child care rate used as the basis for the legally non-licensed provider reimbursement: Legally non-licensed providers are currently reimbursed at a rate that cannot exceed 80 percent of the licensed family child care rate. Legally non-licensed providers who serve families in CCAP generally have no private pay clients and usually charge at the maximum level of reimbursement allowed by law. Setting this percentage at the average of the percentages used by other states when rates are established as a percentage would be one way to determine a reduced level.

Analysis of the State CCDF Plans for Federal Fiscal Year 2004-2005 revealed that thirteen states index their informal provider (identified as legal non-licensed providers in Minnesota Statutes) rate ceilings. Minnesota is one of the states. Prior to the 2003 legislative session, the legal non-licensed rate had been set at 90 percent of the licensed family child care rate for like care. The 2003 Legislature reduced this rate to 80 percent and changed payment to an hourly basis. The median rate at which the other twelve states set their rate is 70 percent of the licensed family child care rate for like care.[42] See Appendix M. Therefore, one potential strategy is to further reduce the rate in Minnesota to 70 percent of the licensed family child care rate for like care, to bring Minnesota in line with other states. It is important to note that because states allow providers to be paid in different blocks of time, a state that uses 70 percent of the licensed family child care weekly rate as the basis might actually pay more than Minnesota at 80% of the hourly rate.[43] The *Child Care Use Study,* which will be released in 2005, will shed further light on payments for informal care in the private pay child care market in Minnesota.

Advantages: Makes Minnesota's legal non-licensed rates more consistent with those of other states. This is of particular value in the area of legal non-licensed care where determining the market rate is so difficult. This strategy would contain costs.

Disadvantages: Legal non-licensed providers faced a significant reduction in rates as a result of policy changes made by the 2003 Legislature. (These included the percentage reduction, a move to hourly payment, and implementation of fees for background checks.) This might reduce the number of family, friends and neighbors willing to care for children in subsidized care. In some cases, when families work non-standard hours or prefer culturally appropriate care, legal non-licensed care is the best or only care available to the family. This possible reduction in access could negatively affect parents' ability to work.

2. ***Program restrictions*** are intended to reduce or to cap growth of rate-driven costs in the Child Care Assistance Program. Proposals in this area include: cap year to year increases of the 75th percentile, reduce percentile reimbursement maximum, implement blended rates, and continue the rate freeze into 2006 and 2007.

Cap year to year increases at the 75th percentile: Continue to identify the level at which rates increase in the private market year to year. Cap the year to year increases that may occur in the subsidy system based on a Consumer Price Index (CPI) indicator.

As stated in Section IVA2, provider rates have increased an average of 5-6 percent unadjusted for inflation or 2.3-3 percent adjusted annually from 1998-2004, in line with national estimates of child care rate increases. A strategy would be to cap increases at or below the average increases seen in the market. An example would be to cap CCAP maximum rate increases based on increases seen in a CPI indicator. The forecast of the CPI (all items, nationwide) for the next four years ranges from 1.43 percent in SFY06 to 2.02 percent in SFY09. A new survey would be completed and analysis done to determine the 75th percentile for like care arrangements (type of care, age of child, and unit of time). The new 75th percentile values would be compared to the allowable increase in the maximum rates for the current year based on the CPI indicator. The lesser of these two values would become the new maximum rate. The level of access under this proposal will vary depending on what year's rates are used as the base.

Figure 18 below identifies the percent of providers' rates below, at or above the current frozen rates increased once under each cap scenario. A smaller portion of the family child care market would be impacted more than the center market. Approximately 26.2 percent to 27 percent of family child care providers would have rates above the maximum rates if 2001 maximum rates were increased by two to three percent. Approximately 40.4 percent to 42.3 percent of center-based providers would have rates above the maximum rates if 2001 maximum rates were increased by two to three percent. This in effect increases the rates surveyed in 2001 by each cap amount.

Figure 18 – Percent of CCAP providers covered in 2004 based on current bulletin rates (03-68-07) with various caps

Cap	Family Child Care			Centers		
	Below the cap	At the cap	Above the cap	Below the cap	At the cap	Above the cap
2.00%	72.80%	0.20%	27.00%	57.80%	0%	42.30%
2.50%	73.05%	0.30%	26.30%	58.60%	0%	41.40%
3.00%	73.80%	0.00%	26.20%	59.60%	0%	40.40%

Source: 2004 Rate Survey

Additional analysis was done to determine if there was a disproportionate impact on metropolitan and rural providers. See Figure 19 below. Rural family child care providers are six to seven percentage points more likely to be below each maximum. Rural child care centers are two to three percentage points more likely to be below each maximum.

Figure 19 – Percent of all providers covered in 2004 based on current bulletin rates (03-68-07) with various caps by area of the state

Cap	Region	Family Child Care			Centers		
		Below	At	Above	Below	At	Above
3%							
	State	69.84%	0.05%	30.11%	61.91%	0.08%	38.01%
	Rural	73.04%	0.09%	26.88%	63.42%	0.26%	36.32%
	Urban	65.82%	0.00%	34.18%	61.28%	0.00%	38.72%
	Rural-Urban Difference	7.22%	0.09%	-7.30%	2.14%	0.26%	-2.40%
2.50%							
	State	69.48%	0.22%	30.30%	61.14%	0.00%	38.86%
	Rural	72.62%	0.39%	26.99%	63.07%	0.00%	36.93%
	Urban	65.54%	0.00%	34.46%	60.33%	0.00%	39.67%
	Rural - Urban Difference	7.08%	0.39%	-7.47%	2.74%	0.00%	-2.74%
2%							
	State	68.94%	0.12%	30.94%	60.18%	0.13%	39.69%
	Rural	71.70%	0.21%	28.09%	62.19%	0.44%	37.37%
	Urban	65.48%	0.00%	34.51%	59.34%	0.00%	40.66%
	Rural-Urban Difference	6.22%	0.20%	-6.42%	2.85%	0.44%	-3.29%

Source: 2004 Rate Survey

Providers in different circumstances would feel different effects from this strategy, based on the relationship of their rates to the allowable maximum rates and the level of their increases to the cap.

Advantages: This proposal directly addresses the mandate of the Legislature in developing this report; it will contain costs. Providers who limit their increases will not be impacted, while providers with larger increases will. This strategy would create some price sensitivity as parents absorb the difference between maximum rates and actual rates.

Disadvantages: If child care costs increase faster than inflation and/or current rates are not used as the starting point, this change will reduce the effective percentile reimbursement maximum over time paid by the Child Care Assistance Program. This will likely limit access for some families, which might negatively impact economic stability and school readiness. It is likely that the rural areas which already experience less provider density will experience the greatest proportional reduction in access.

Reduce percentile reimbursement maximum – Current law directs that rates be set at the 75th percentile of rates based on a current survey. The current Rates Bulletin (03-68-07) sets maximums at the 75th percentile of rates gathered in the 2001 rate survey. One strategy is to reduce this percentile to a level beneath the 75th percentile.

The department considered the possibility of reducing the percentile reimbursement maximum to the 65th percentile of the 2004 rates. All providers who charge rates above the 65th percentile would be impacted. Analysis suggests that this would be approximately 24.6 percent of family child care providers and 24.8 percent of all child care centers. There does not appear to be a disproportionate impact on urban versus rural when using 2004 data. Rural family child care providers, by 2.2 percentage points, are slightly more likely to be under the maximum than urban family child care providers with a 65th percentile. See Figure 20.

Figure 20 - Percent of provider rates under the maximums for urban and rural providers in 2004

Source: 2004 Rate Survey

	75th Percentile		65th Percentile		Difference	
	FCC	Centers	FCC	Centers	FCC	Centers
Urban	80.70%	82.90%	72.50%	75.10%	-8.20%	-7.80%
Rural	83.80%	83.10%	77.70%	75.50%	-6.00%	-7.50%
Statewide	82.40%	82.90%	75.40%	75.20%	-7.00%	-7.70%

Advantages: This strategy contains costs. The state could effectively argue that access exists if approximately 2/3 of providers could be paid their full rate (less the family's copayment) and this level of access did not erode over time. This strategy increases price sensitivity for families using higher cost care and allows the current market to drive maximum rates.

Disadvantages: This change will reduce the percentile reimbursement maximum paid by the Child Care Assistance Program. This will likely limit access for some families. If providers choose to disenroll subsidized children, the school readiness of these children and the economic stability of their families might be threatened. This proposal would actually reduce the rates (rather than only capping growth) for providers above the new maximum, but would not limit growth after this reduction.

Implement blended rates: Under the current rate structure, maximum rates for licensed family child care and licensed child care centers are determined separately. Under a blended rate system, one maximum rate would be calculated and would be based on all licensed rates. In general, this would lower maximum rates for licensed centers and increase them for licensed family child care. It would also increase rates for legally non-licensed providers, based on the increase for licensed family providers.

Analysis of 2004 rate data indicates that if blended rates were established at the 75th percentile and based on 2004 rates, 96 percent of family child care providers and 67 percent of licensed child care centers would have rates beneath the blended maximum. This level of access for centers deteriorates when older rates are used to set the maximum. When 2002 rates are used to set the maximum, 92 percent of family child care providers and 46 percent of child care centers would have rates beneath the maximum. When 2001 rates are blended and compared to the 2004 market, 90 percent of family child care providers and 36 percent of licensed child care centers would have rates beneath the maximum. For purposes of this analysis, family child care providers were assigned slots to allow for comparability to centers. The average number of children by age group in family child care homes was used.

Advantages: This strategy contains costs to a limited extent. It increases price sensitivity for parent purchasing care from licensed child care centers.

Disadvantages: The direct savings are not large because family child care maximum rates increase. There is no clear benefit to paying higher maximum rates for family child care in terms of access or school readiness. Depending on how current the rates used are, this strategy might limit access, which might negatively impact economic stability and school readiness. To the extent that this reduces or eliminates access to a category of care that is available to the private pay market, the state risks non-compliance with federal regulations.

Continue the rate freeze into 2006 and 2007: Continue the rate freeze implemented in 2003. Some states update their maximum rates infrequently in order to contain costs. See Appendix G for a summary of state reimbursement maximums and the year the percentile was established.

Analysis of 2004 rate data identifies that the current maximums are at a statewide average 56th percentile for licensed family child care homes and 47.9th percentile of licensed child care centers. Note there is a difference between percentiles and percent of providers covered. In 2004, 68.4 percent of family child care providers and 56.8 percent of child care centers were covered by these effective percentiles. In urban areas in 2004, 64.4 percent of family child care providers and 55.6 percent of centers were covered by these effective percentiles. In rural areas in 2004, 71.5 percent of family child care providers and 59.7 percent of centers were covered.

Advantages: This strategy would have the most significant cost savings.

Disadvantages: Because no rate increases would be allowed, a rate freeze is the strategy most likely to restrict access to both licensed family child care and center-based care. This might negatively affect children's school readiness and families' progress toward economic stability. Since rural centers are operating at a loss, they are less likely to be able to absorb costs without increasing rates. This is particularly problematic because center care is limited in rural areas.

3. Systemic changes are those that would fundamentally change the nature of the program. Proposals in this area include: share costs, establish contracts or service agreements, and consolidate subprograms.

Share costs: Cost sharing is one option to contain costs and maintain access to programming. In this model, if a family selects care that costs more than other options, the family would share responsibility for the choice by paying a portion of the cost differential. This could occur through actual sharing of costs or through increased copayments for families using the highest cost care. This would mean that families in the highest cost care would face cost incentives similar to families not participating in CCAP. An incentive could be incorporated to encourage use of quality care. The analysis provided in the blended rates strategies section is the starting point for analysis. The degree to which costs would be contained under cost sharing depends upon specifics about how the policy would be implemented, i.e. would families using different types of care be treated differently, would cost sharing be scaled to income level, would quality of care affect level of cost sharing.

Advantages: This would incorporate price sensitivity which is felt by private pay families and therefore will be experienced by CCAP families upon exiting the program. This strategy would contain costs as a stand-alone component. Targeting could allow incentives to access care that supports school readiness.

Disadvantages: This is not a method that directly targets funds in ways that promote goals. Cost sharing would be considered a cost increase when combined with other cost savings proposals that reduce the base. The cost above the lowered base could occur without an assurance that the expenditure is supporting school readiness. If this happens, there would be limited relationship between increased expenditures and support for policy goals. Cost sharing is administratively burdensome. Unless cost sharing is indexed by income, this is likely to have the biggest impact on the lowest income/highest risk families. Families in the Child Care Assistance Program are already paying copayments ranging from almost four percent to 22 percent of income.

Establish contracts or service agreements: Contracts or service agreements could be established with some licensed providers in order to increase targeted access to care that promotes school readiness. Contracts or service agreements would allow for payments above the base rate, but within an established cap when:

- Population served includes a high concentration of low income or teen parents
- Center is in rural area
- CCAP funds are being blended with other public funding sources targeted to care and education of children. (e.g. Head Start/child care partnerships).

Contracts or service agreements would require: (a) a written agreement with school district related to school readiness, (b) an intentional curriculum, (c) no licensing violations, (d) participation in valid child assessment process - supported by training from Quality and Availability funds through the federal Child Care and Development Fund, (e) detailed information about other public funds targeted to care and education of children, and (f) detailed information about budgets when a higher proportion of the children are receiving subsidized care. Contracts or service agreements would be discontinued if performance measures were not met.

Advantages: Allows for targeted spending of funds to improve school readiness and/or support economic stability. Allows opportunity to assess impact of identified child care program characteristics on outcomes for children and families.

Disadvantages: Requires additional work at the state and county levels. Easier to implement with child care centers than with family child care providers. Does not increase price sensitivity. Would only contain costs within CCAP if the base rate and caps are at or beneath the 75th percentile of 2004 rates.

Consolidate subprograms: Consolidating the Child Care Assistance subprograms to maximize the state's investment in subsidized child care would be a systemic change. Consolidation would change the current dynamic of CCAP subprograms; receipt of cash assistance would no longer improve the likelihood that one would benefit from CCAP. Consolidation could occur in a number of ways. The entire program could be consolidated and included in the forecast with income eligibility levels based on projected resources available at the time of consolidation. Another option is to include all families eligible to receive MFIP (not only those actually receiving it) in the forecast child care program. This would require moving some funds out of the Basic Sliding Fee Program. The remaining Basic Sliding Fee funds would serve families not eligible for the forecast programs. Under this scenario, waiting lists might continue to exist.

Advantages: A consolidated program would increase equity in receipt of child care assistance. The extent to which this occurs would depend on the option chosen. The literature review (Section VA5) points to the importance of lower income families having equitable income access, regardless of participation in MFIP. The Reasons for MFIP Application study also identifies the level of need for child care at enrollment into MFIP. Twenty-six percent of applicants who were approved for MFIP in study counties identified child care cost or need as a reason for applying for MFIP. For applicants with children under age six, it was cited as a reason by 36.9 percent of applicants – the number one reason.

Disadvantages: Depending on the projected cost and resulting eligibility levels, families with significant child care costs may no longer be eligible. This strategy does not contain costs.

Future Considerations

Tie rate increases to quality: For sites that meet higher standards of care, including child-level assessments, an additional amount may be paid in addition to a base rate. These standards would need to be developed and implemented.

Advantages: Controls costs while providing increases to the providers who demonstrate they support school readiness and continuity of care necessary to support stability.

Disadvantages: Administratively burdensome to implement in the Child Care Assistance Program. Also requires development of a child care quality assessment tool. Does not increase price sensitivity.

4. Connections to other systems. **Data matching with the Department of Revenue:** Build on experiences in the MFIP system that matched participant data with Department of Revenue data to identify any families that may benefit from filing for tax benefits. A call for counties interested in participating in the program would be distributed statewide. Counties who respond would work within data privacy regulations to identify families on CCAP and share the information with DHS. The department would provide the information to the Department of Revenue, who would identify families that did not file taxes one to three year/s prior. The department would inform counties of families who did not file taxes, provide a packet of information, and the counties would connect with the families. The earliest this could be implemented is in 2006, after data privacy statute changes become effective.

Advantages: Assists families in increasing financial resources through tax channels that are currently available.

Disadvantages: Unclear whether there is an ongoing impact or whether repeated outreach efforts are required.

Work with employers and communities to develop incentives for local investment:

One possible role for the business community is finding ways to encourage small businesses to offer Pre-tax accounts. One opportunity is to encourage Chambers of Commerce to have a benefits consultant as a member and offer pre-tax account planning services to other members at a reduced cost. Similar efforts have moved forward in New York and Indiana. One aspect of this work is creating broader awareness that the child care component may be implemented separate from the health care pre-tax component. Only implementing the child care component protects employers from some of the liabilities with the health care pre-tax account. See Appendix N for a brief on pre-tax accounts from 1999 with 2004 updates.

Advantages: Builds on existing resources by enlisting the business community as a partner. Assists families in increasing financial resources through tax channels that are currently available.

Disadvantages: It is important to note that there are a number of challenges employers face in offering pre-tax accounts as part of a cafeteria plan in the tax code[44]—none of which can be addressed through state policy as it is an Internal Revenue Service (IRS) regulation. For many families, the tax benefits are not significant relative to child care costs.

Satellite management: Child care centers benefit from efficiencies of scale to a larger degree than family child care providers. One way to correct this is to offer administrative services to a group of family child care providers to streamline their practices. These administrative services may include recruitment and enrollment, overdue bill collection and professional development course offerings.

Advantages: Benefits all providers, not only those serving children in subsidized care. Might reduce need for future cost increases.

Disadvantages: Cost of satellite management might exceed benefit.

D. Recommendations on cost containment

The department recommends that a combination of strategies identified above be considered for cost containment in SFY 2005 and 2006. In addition, the short term changes will continue to be tracked through the mechanisms that currently exist and are identified in section V. To the extent possible, with existing resources mechanisms to measure outcomes based on policy goals will be developed and tested during this time period. The information gathered from this analysis will be used to inform future cost containment decisions.

Strategies to consider implementing immediately:

1. Program refinements:
Limit absent day payments and establish a registration fee maximum for all counties. These changes both serve to align decision making in the child care assistance program more closely with the decision making pressures that private pay families face. While the cost savings are minimal, they serve to begin the transition for families receiving assistance to the market decisions they will be facing when they move off of CCAP.

2. Program restrictions.
The department recommends that year to year increases be restricted to help control growth in CCAP expenditures. The exact policy should balance the need for cost containment with the measured impact on client access to care. The department should use market surveys to assess the extent to which maximum rates allow access to the network of care available to private pay families, including differences in access in different parts of the state.

3. Systemic changes:
Consider setting aside a limited amount of funds to promote access to providers who meet characteristics designed to promote school readiness for low income children or economic stability as identified under the option "Establish Contracts or Service Agreements." Outcomes from funds invested should be tracked and used to inform future policy and cost containment decisions. Efforts should be made to ensure that all provider types are considered for inclusion in the test.

4. Connections to Other Systems.

- The department has authority to match data with the Department of Revenue to improve access to tax credits for families on MFIP. This would include families who are on MFIP and participate in the Child Care Assistance Program. The state should consider changes in legislation to expand this permission to families who are on the Transition Year and Basic Sliding Fee programs. While the benefits of accessing child care tax credits are limited, it appears that access to the Earned Income Tax Credit would have significant related benefits for many low income workers. (See Section VI.)

- Focus some of the resources available for infrastructure development under the CCDF on exploring support of administrative structures that would take advantage of economies of scale to reduce costs and working hours and improve profit margins for family child care providers and rural based center providers. Examples include: administrative activities such as accounting, billing, tax preparation; group purchasing for items such as insurance, supplies and flexible staffing, and resource development pools including substitutes, assistants and professional development. In addition, explore changes in licensing statutes that would allow satellite management of family child care homes.

VI. Tax policy supporting working families

Background

The legislature directed the commissioner to consider interactions between child care costs and tax policies. This section will focus on the dependent care tax credit (DCTC) and pre-tax accounts for child care. Two methods of using tax policy to offset child care expenses.

DCTC

The federal credit for child and dependent care expenses allows families to reduce their tax burden based on their income and child care costs. The federal credit phases down, but does not phase out as the income of the family increases.

The federal credit, like most tax credits, requires the family to pay the child care throughout the year and collect the credit the following year through completion of a tax return. This means the family needs to cash flow the child care expenditures as much as 14 to 17 months (or longer) before the credit relating to those expenditures is available to the family.

The federal credit for child and dependent care is based on earned income of each spouse and is the lower of the earned income or the child care expenditures. At a minimum, each spouse must have earned income equal to the amount of qualifying child care expenditures.

- The federal credit for child and dependent care is a nonrefundable credit, meaning it is limited to the tax liability of the family.
- In a single parent, head of household, two child family, the minimum earned income needed to generate a child and dependent care credit is $13,350 for one child (standard deduction plus two exemptions) and $16,450 (standard deduction plus three exemptions) for two qualifying children. Below this income there is no benefit to the family because after the standard deduction and exemptions reductions, there is no federal tax liability.
- While families with incomes listed in the bullet above can claim a child and dependent care credit, each dollar of that credit may simply reduce the amount of their federal child credit by a dollar,[45] with no net gain. The child and dependent care credit provides a net gain to a single parent only if income exceeds $21,000 (two children – 134 percent FPG) or $15,750 (one child – 126 percent FPG).
- The maximum credit available to a family is $1,050 for one child and $2,100 for two or more children. Expenses incurred must be at least $3,000 for one child and $6,000 for two or more children in order to receive the maximum credit.
- The credit begins at 35 percent of the lessor of earned income or qualifying child care expenses and phases down to 20 percent of the lessor of earned income or qualifying child care expenses.

Minnesota has a dependent care tax credit that is based on the federal credit, but targets resources differently.[46] Minnesota's credit phases out.

- The state credit is refundable. This means that families without any tax obligation can receive a benefit in Minnesota. There is no minimum level of income required to qualify for this credit. Those with incomes too low to qualify for the federal child and dependent care credit can generally qualify for the Minnesota credit.
- The state credit for child and dependent care is based on the household income and number of qualifying children.
- The maximum credit available to a family is $720 for a family with one qualifying child and $1,440 for a family with two qualifying children. The phase-out begins near $20,000. A portion of the credit is available until household income exceeds $33,610.

Pre-tax accounts for child care expenses

Policy for the pre-tax accounts is entirely federally driven. By using a pre-tax account a family can set aside up to $5,000. The family is not required to pay state or federal income taxes, social security taxes, or Medicare taxes on these pre-tax funds.[47] There are some risks to using pre-tax accounts.[48] Employers also receive some tax advantages under a pre-tax account.

The family is required to have the pre-tax funds taken out of the paycheck and also needs to pay the provider. This may make initial use of the pre-tax account difficult for low-income families. Once reimbursements begin the family is able to receive reimbursements based on the employer's payment schedule. The family is getting the child care pre-tax reimbursement much sooner than the credit which is received after the taxes are filed. For more detail on the pre-tax accounts, see Appendix N.

- In order to qualify to use a pre-tax account, the earned income must, at a minimum, be equal to the amount of funds set-aside in the pre-tax account.
- There is a provision for an adult who is attending school full time if the spouse is working and has earned income. The adult attending school will obtain credit for each month in attendance, which is counted as earned income.
- The maximum amount that can be set-aside in a pre-tax account is $5,000 per year. This maximum applies regardless of how many children are receiving child care.
- The tax benefit for the employee using a pre-tax account is not paying federal and state income tax on the dollars used in the pre-tax account. The employer does not pay employment taxes on the amounts used in the pre-tax account. Neither the employee or the employer pay payroll taxes on the benefits.

Analysis

In order to assess how families would experience DCTC and pre-tax accounts, department staff developed tax scenarios for different family situations. The variables used include: county of residence (Isanti or Ramsey), type of care (licensed family or licensed center), and income level as a percent of the federal poverty level (150 percent, 200 percent, 220 percent, 230 percent, 240 percent and 250 percent)[49]. The percent of federal poverty level throughout the report refers to the federal

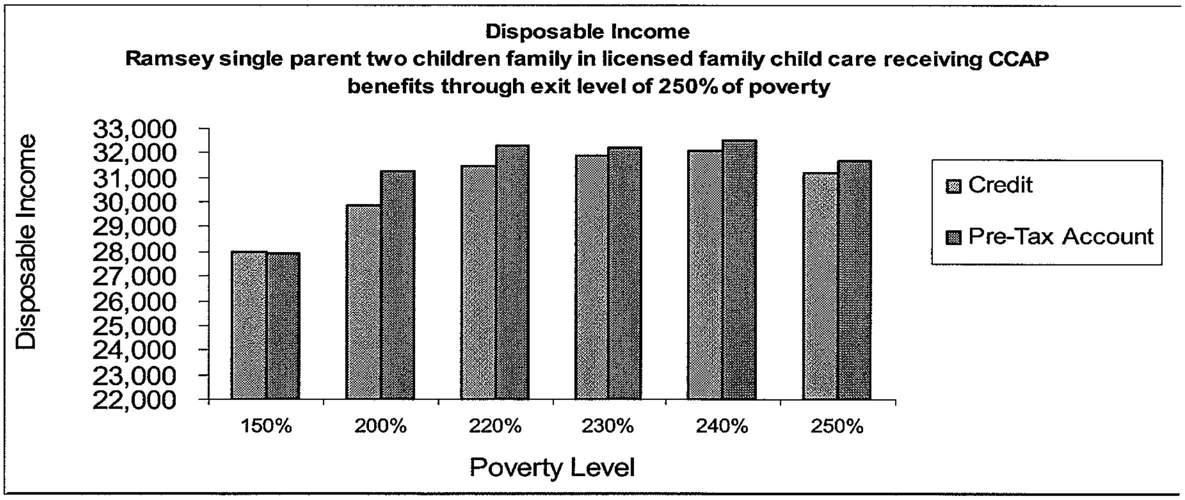
For family scenarios at 200 percent through 250 percent of the federal poverty level, use of the pre-tax accounts produces better tax benefits than use of the dependent care tax credit. For families at 150 percent of the federal poverty level, the use of the dependent care tax credit produced a slightly better tax benefit than use of the pre-tax accounts.

poverty level for purposes of CCAP.[50] This means the federal poverty level is reduced by the health insurance premium, as this is an allowable income deduction in CCAP. Example: 157 percent of FPL calculates to $24,573. For purposes of this section, that amount is reduced by $1,068 (MinnesotaCare premium amount for this level of income), leaving CCAP income of $23,505 (150 percent of FPL). Most family scenarios involved two children. A few of the scenarios were run with only one child to determine if trends were compatible. All scenarios were developed in two ways. The first was to maximize up to the full amount allowed through the child care tax credit ($6,000 worth of child care expenditures for two children). The other calculation was to first use a pre-tax account (up to $5,000 in child care expenditures) and then claim the additional $1,000 under the child care tax credit, where possible. Following the lead of the authorizing language to focus on containing costs in the CCAP, in most cases, families were assumed to receive child care assistance.

This analysis has led to the following findings.

- For family scenarios at 200 percent through 250 percent of the federal poverty level, use of the pre-tax accounts produces better tax benefits than use of the dependent care tax credit. For families at 150 percent of the federal poverty level, the use of the dependent care tax credit produced a slightly better tax benefit than use of the pre-tax accounts.
- Disposable income[51] is greater for families in all four county/type of care scenarios who use a pre-tax account, than for similar families who claim the dependent care tax credit, beginning with income levels at 200 percent of the federal poverty level, up to and including families with incomes at 250 percent of the federal poverty level. At 150 percent of the federal poverty level, the dependent care tax credit is slightly better. See Figure 21.

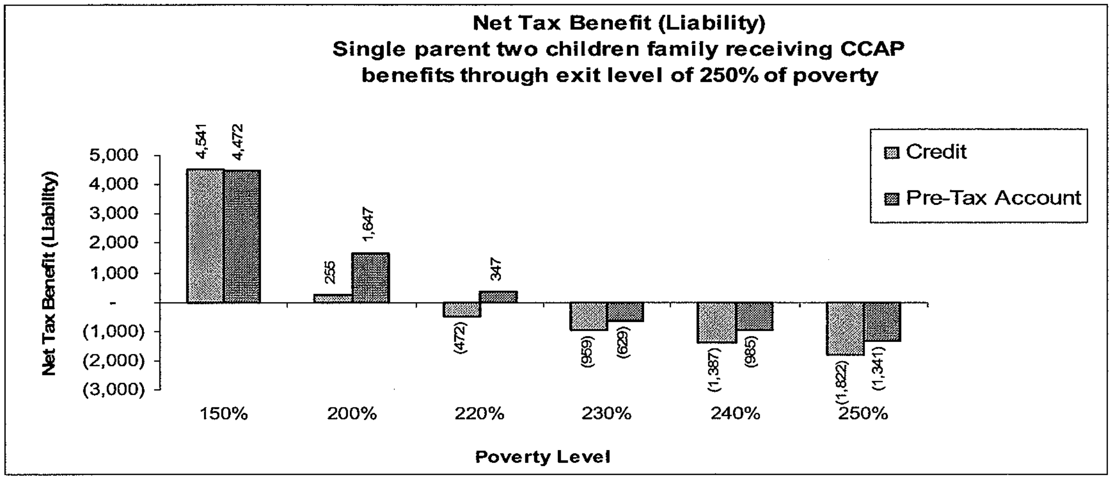
Figure 21 – Disposable income: credit and pre-tax account



A family using family child care in Ramsey County is the example presented in the report text. The other scenarios are included in Appendix O.

- Use of the pre-tax accounts provides for a greater tax benefit, or lower tax liability than use of the dependent care tax credits for families with income levels at 200 percent through 250 percent of the federal poverty level. See Figure 22. The net tax benefit is slightly greater using the dependent care tax credit than using the pre-tax accounts for families at 150 percent of the federal poverty level. In the scenarios developed, this is true both for families receiving Child Care Assistance and for those who are not, because their income is too high.

Figure 22 – Net tax benefit/liability: credit and pre-tax account

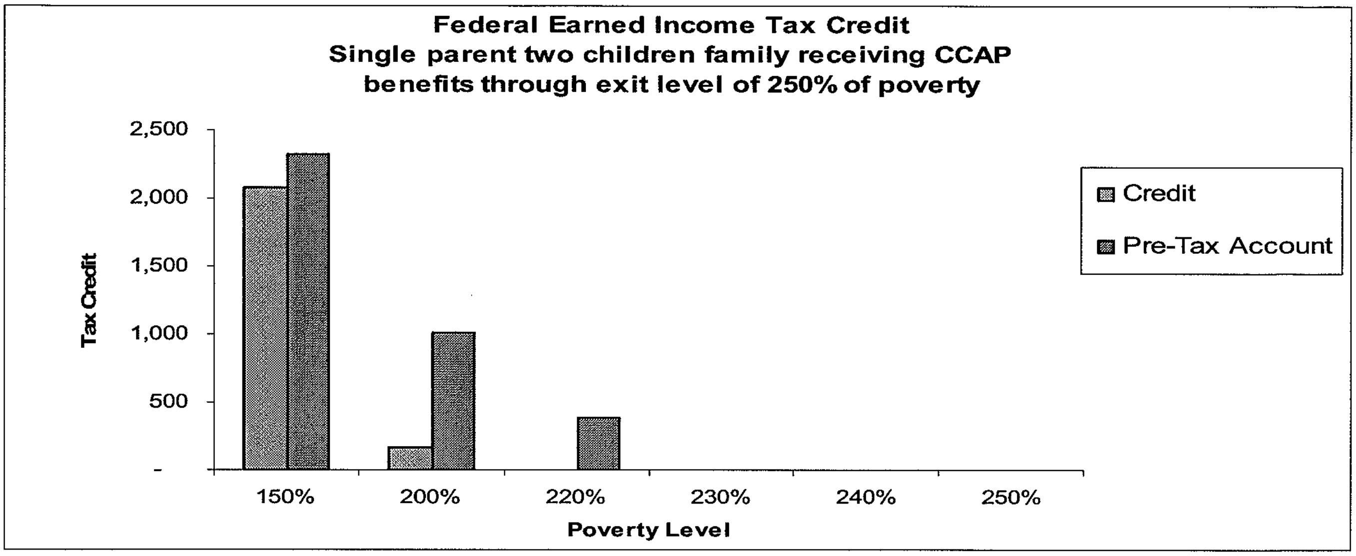


Use of a pre-tax account delays the point at which a family begins to phase-out of Federal Earned Income Tax Credit (EITC) eligibility.

Pre-tax accounts serve a role in extending families' eligibility for another tax policy that supports economic stability.

Use of a pre-tax account delays the point at which a family begins to phase-out of Federal Earned Income Tax Credit (EITC)[52] eligibility. See Figure 23. Because using a pre-tax account decreases the earned income, the Federal Earned Income Tax Credit is available longer, until the family reaches a higher earned income. If a family of three does not utilize a pre-tax account, they would benefit from the earned income credit until their earned income exceeded $33,650. If that same family puts $5,000 into a pre-tax account, they will benefit from the Federal Earned Income Tax Credit until their earned income exceeds $38,650. The scenarios suggest that EITC benefits phase out for families using tax credits when their incomes are between 200 percent and 220 percent of the federal poverty level. For families using pre-tax accounts, EITC benefits phase out between 220 percent and 230 percent.

Figure 23 Federal Earned Income Tax Credit



Families are already receiving the full tax benefit before they lose eligibility for CCAP, therefore tax policy does not ease the transition off CCAP.

Families are already receiving the full tax benefit before they lose eligibility for CCAP, therefore tax policy does not ease the transition off CCAP. The potential benefit of pre-tax accounts is large enough to warrant state policies that encourage employers to offer them and to study ways to limit the risks facing workers who use them.

Like the child credits, though, they provide no cushion to soften any cliff that exists at the exit point.

Consideradations

States should encourage use of the pre-tax account and study ways to limit the risks facing families who use them.

Tax policy changes should be considered to extend the benefits to the level necessary to ease the transition off the child care assistance program. This is an area in which policy changes might be made.

Families are required to cash flow their child care expenditures to some degree under both the dependent care tax credits and pre-tax accounts. This is an area which policy changes might be made to ease the cash flow burden.

VII. Equitable allocation formula

The legislation directing this study states, "The commissioner shall also examine the allocation formula under Minnesota Statutes 119B.03, and make recommendations for a more equitable formula." This section addresses two possible changes:
(1) adjusting the components of the Basic Sliding Fee (BSF) formula allocating BSF funds to counties, and
(2) moving from a county-based allocation to a regional allocation. Both changes are presented by providing background, analysis, and recommendations.

1. Basic Sliding Fee allocation formula

Background

The formula allocating BSF funds to counties is found in Minnesota Statutes 119B.03, sections 6, 6a, and 8. Each county receives a guaranteed floor equal to 90 percent of the allocation received in the preceding calendar year. Any remaining available funds are allocated in equal portions:

(a) ¼ of the funds in proportion to each county's total expenditures
(b) ¼ of the funds in proportion to the number of families participating in the transition year child care program
(c) ¼ of the funds in proportion to each county's most recently reported first, second, and third priority waiting list
(d) ¼ of the funds in proportion to each county's most recently reported total waiting list.

Analysis

In 1999, when this formula was developed, total waiting lists were long and BSF funds were increasing each year. This formula was intended to provide funds to counties with need, measured both in magnitude and severity. While this formula did begin redirecting funds to counties with greater need, as demonstrated by waiting lists and expenditure history, it did not perfectly align demand and resources. Some counties continued to have significant waiting lists, while other counties did not have waiting lists and/or significantly underspent their allocations. Some counties received significantly more per family than appropriate, based on the number of families on the county waiting list.

A workgroup of the Minnesota Association of County Social Service Administrators (MACSSA) representatives and child care program financial staff met in 2002 and 2003 to discuss options to improve fund distribution through formula changes. The workgroup identified three options they wanted to pursue further and recommended that additional analysis be completed. Because of the significant policy changes and budget cuts faced by CCAP during the 2003 Legislative session, the Department of Children, Families and Learning (where CCAP was then located) decided not to pursue formula changes at that time.

The analysis done by the MACSSA workgroup became the starting point for analysis for purposes of this report. The recommended changes were in three areas: (1) guaranteed floor, (2) portion of the variable funding based on expenditures, and (3) variable funding categories based on number of families. As part of the cost containment project, these three options were further analyzed, which involved recalculating the original and revised allocations using the formula changes. The results of these analyses are included in Appendix P.

CCAP staff presented the three proposed changes to department staff familiar with allocation formulas in other programs. The staff members familiar with other programs suggested a number of allocation strategies utilized in other programs and variations on the current BSF formula. The strategies are presented below, along with an initial assessment of appropriateness in the funding environment of the Basic Sliding Fee Program. The first two would change the formula significantly. The third and fourth modify the existing formula.

Alternate strategies

1. **Overallocation** attempts to compensate for counties' tendency to spend below their allocations. This is used in programs that have a back-up funding source that could be used if counties spent the entirety of the allocation. There is not a funding source to guarantee overspending in BSF. One example of this is the Alternative Care model.[53]

2. **An expenditure-based allocation** formula moves funds quickly to counties that can, or will, spend them. The expenditure basis could apply to the entire formula, or a portion of it. This would address the slow rate at which underspending counties see their allocation decrease, which has been a concern in BSF. Financial Management staff at DHS expressed concerns that this realignment can sometimes happen too quickly and can, in effect, make temporary reductions permanent. One example of this is the Developmental Disability Semi-Independent Living Services (DD-SILS) programs. The language for this program is the lesser of allocation or actual spending as the guaranteed floor. This created situations where some unusual circumstance (such as provider closing) temporarily interrupted the programs spending, but created a permanent reduction in the county's allocation.

Variations on current formula

1. The **guaranteed floor could be moved upward to 95 percent** of the allocation received in the preceding calendar year. All other portions of the current BSF formula would stay intact. This would stabilize the allocation.

2. The **BSF allocation could be rebased to the current year actuals.** The same formula would be applied but the starting point would change. A two or three year average would likely be used to rebase. One of the issues with the current formula is that over many years distortions between funds available and levels of need have multiplied. This would address those concerns on a one-time basis.

The department is recommending that the BSF allocation formula not be changed at this time. When the child care assistance environment and spending are more stable, additional research and analysis could be completed to determine if one of these formula changes, or some other change, should be implemented.

Recommendation

The significant policy changes of the past year and the effect of these changes on county expenditures, both in transition and as an on-going situation, have created an environment that is too unstable to predict how a formula change would affect expenditures. Because of this instability, possible formula changes do not appear to more accurately align demand and resources. Therefore, the department is recommending that the BSF allocation formula not be changed at this time. When the child care assistance environment and spending are more stable, additional research and analysis could be completed to determine if one of these formula changes, or some other change, should be implemented.

2. Regional allocations in the Basic Sliding Fee Program

Background

Basic Sliding Fee funds are currently allocated to counties. This is similar to the distribution of funds in many other county-administered programs. The number of counties between which the funds are divided, the small allocation received by some counties, and the inability to move funds between counties in a timely way, may be contributing to inefficiencies in the BSF program. Another possibility for distributing BSF funds would be to switch to a regional allocation. This would mean that in some, or all cases, funds would be spread across larger geographic areas. A regional allocation would be intended to:

- Direct the funds to counties with the most need in terms of priority and magnitude
- Provide those counties that currently have insufficient funds with opportunity for using funds from those counties that underspend
- Pool resources so that funds that are insufficient to serve an additional family at the county level can be combined with similar funds in other counties to serve additional families in the county group.

While addressing some problems this change would not fix some of the weaknesses of the allocation-based model. It would only shift them from a county level to a regional level.

Analysis

The degree to which these advantages are realized varies when counties are grouped by different characteristics. The following are possible grouping options:

1. Groupings could be based on a geographical factor such as the Governor's Economic Development areas or Child Care Resource and Referral (CCR&R) regional areas.
2. Groupings could be based on which counties can sustain their program based on the level of resources available.
3. Groupings could be based on metropolitan and nonmetropolitan categories.[54]
4. Groupings could be based on size categories according to caseload or expenditure levels.

The advantages of a regional allocation include:

- Additional families would be served. If there is a larger pool of funds available to a group of counties than the amount available to an individual county, there is potential for waiting lists to be decreased and additional families served, in those counties that can manage additional caseloads.
- Some of the risk of reimbursement, when counties spend beyond their allocation, is removed. In the last six out of seven years, counties that overspent received 100 percent of their overspending during reallocation at the end of the calendar year due to underspending by other counties. However, counties take a risk when they overspend that they may not get 100 percent of their funds. If more funds are available for those counties that overspend, the risk for counties not

getting reimbursed is reduced and counties are more likely to serve families throughout the year.

- Counties would receive funds for expenditures in the year they are incurred. The current process of reallocation is completed in February or March following the calendar year when overspending occurs. Reallocation uses county money in one calendar year and state reimbursement occurs in the next calendar year. Under a regional allocation the county receives reimbursement in the calendar year expenditures are incurred.

There are also disadvantages to creating a regional allocation, including:

- Requiring establishment of an administrative structure that creates a fiscal agent that crosses counties.
- Requiring additional administrative funds for the fiscal agent, if needed. Counties would continue to manage the caseloads with some of the financial responsibilities being transferred to a fiscal agent. Because administrative funds are tight for counties under current law, they would likely be unwilling to give up their administrative funds to the fiscal agent, even though some of their financial management responsibilities would be transferred. The fiscal agent would not be willing to take on additional administrative burdens without reimbursement, therefore, it may require additional funds.
- Requiring an administrative management computer system that allows for tracking of funds, eligibility and waiting lists consistently across counties.

Recommendation

While the advantages of regional allocation are not insignificant, the disadvantages must be addressed before moving forward. Statewide implementation of an electronic information system must occur before allocations can extend beyond county boundaries. In addition, dialogue must occur with counties about administrative resource issues. Therefore, the department is not recommending a switch to regional allocations at this time but will reconsider the possibility when an electronic information system is implemented.

VIII. Conclusions and final recommendations

Cost containment recommendations

The department recommends that a combination of strategies be considered for cost containment in SFY 2006 and 2007.

Strategies to consider implementing immediately:

1. **Program refinements**
   Limit absent day payments and establish a registration fee maximum for all counties. These changes both serve to align decision making in the child care assistance program more closely with the decision making pressures that private pay families face. While the cost savings are minimal, they serve to begin the transition for families receiving assistance to the market decisions they will be facing when they move off of CCAP.

2. **Program restrictions**
   The department recommends that year to year increases be restricted to help control growth in CCAP expenditures. The exact policy needs to balance the need for cost containment with the measured impact on client access to care. The department should use market surveys to assess the extent to which maximum rates allow access to the network of care available to private pay families, including differences in access in different parts of the state.

3. **Systemic changes**
   Consider setting aside a limited amount of funds to promote access to providers who meet characteristics designed to promote school readiness or economic stability as identified under the option "Establish Contracts or Service Agreements." Results in relation to funds invested should be tracked and used to inform future policy and cost containment decisions. Efforts should be made to ensure that all provider types are considered for inclusion in the test.

4. **Connections to Other Systems**
   The department has authority to match data with the Department of Revenue to improve access to tax credits for families on MFIP. This would include families who are on MFIP and participate in the Child Care Assistance Program. Consider changes in legislation to expand this permission to families who are on the Transition Year and BSF programs. While the benefits of accessing child care tax credits are limited, it appears that access to the Earned Income Tax Credit would have significant related benefits for many low income workers.

   The state should both lead and support community and business efforts to improve access to pre-tax accounts. Our research shows that families with incomes at or above 200 percent of poverty level receive greater benefit from pre-tax accounts than other child care tax credits. Improved access to this benefit complements CCAP as part of the state's effort to support low income families paying for child care.

   Focus some of the resources available for infrastructure development under the CCDF on exploring support of administrative structures that would take advantage of economies of scale to reduce costs and working hours and improve profit margins for family child care providers and rural based center providers. Examples include: administrative activities such as accounting, billing, tax preparation; group purchasing for items such as insurance, supplies and flexible staffing, and resource development pools including substitutes, assistants and professional development. In addition, explore changes in licensing statutes that would allow satellite management of family child care homes.

Tax policy consideradations

The department recommends consideration of the following tax policy strategies.

States should encourage use of the pre-tax accounts and study ways to limit the risks facing families who use them.

Tax policy changes should be considered to extend the benefits to the level necessary to ease the transition off the child care assistance program.

Families are required to cash flow their child care expenditures to some degree under both the dependent care tax credits and pre-tax accounts. This is an area which policy changes might be made to ease the cash flow burden.

Basic Sliding Fee allocation recommendations

The significant policy changes of the past year and the effect of these changes on county expenditures, both in transition and as an on-going situation, have created an environment that is too unstable to predict how a formula change would affect expenditures. Because of this instability, possible formula changes do not appear to more accurately align demand and resources. Therefore, the department is recommending that the BSF allocation formula not be changed at this time. When the child care assistance environment and spending is more stable, additional research and analysis could be completed to determine if one of these formula changes, or some other change, should be implemented.

While the advantages of regional allocation are not insignificant, the disadvantages must be addressed before moving forward. Statewide implementation of MEC2 must occur before allocations can extend beyond county boundaries. In addition, dialogue must occur with counties about administrative resource issues. Therefore, the department is not recommending a switch to regional allocations at this time.

Tracking impacts of recommendations

The department has identified options for tracking the impact of future changes to CCAP in the report. To the extent possible, with existing resources mechanisms to measure outcomes based on policy goals will be developed and tested during this time period. The information gathered from this analysis will be used to inform future cost containment decisions.

Conclusion

The Child Care Assistance Program has experienced a multitude of changes over the last two years and the impact of these changes has yet to be fully assessed from a policy perspective. The November 2004 forecast shows that costs are down. The policy changes related to cost containment in 2004 which capped maximum rates, increased copayments, eliminated accreditation bonuses, and changed to hourly payments for legal non-licensed providers certainly had an impact on the average payment per family in the child care assistance program. The change in eligibility to 175% of poverty level certainly targeted funds available to the lowest income families.

Other unanticipated changes in the program are beginning to appear. Families who are currently eligible for child care assistance and who were previous program participants are no longer participating and other families who would be eligible for the Child Care Assistance Program are not applying. It appears that the families are still working or participating in other authorized activities but they are not using the Child Care Assistance Program to the degree expected to subsidize their child care costs. We do not know how their children are being cared for or whether and how the parents are paying for the care. Additional work is needed in this area to determine if the state's policy goals are being met. Access to the provider market is more limited, but we don't know at what point this will have an effect on job stability for families or school readiness for children.

Minnesota is at a crossroads. We have an opportunity to consider how the funds in Minnesota that are invested in children through the child care system can be used most effectively to support important public policy goals: contain costs; support economic stability for families and school readiness for children; provide access to care; and create price sensitivity.

We believe this report will inform those decisions and allow the state to make decisions that will strategically support both the workforce of today and tomorrow in the most cost effective way.

Footnotes

[1]2004 United States Department of Health and Human Services Poverty Guidelines

[2]The origins of the 75th percentile will be discussed in section VAI.

[3]The current maximums indexed to 2004 are at the statewide average 56th percentile for family child care providers and the statewide average of the 47.9th percentile for child care centers.

[4]A description of other changes made by the 2003 Legislature is found in Appendix B.

[5]School-based programs that provide care for school-age children have many characteristics of formal care but are exempt from licensure.

[6]The pool of legally non-licensed providers shifts, based on parent demand. There is no statewide list of legally non0-licensed providers. DHS is in the process of refining research protocols to try to better understand this market. The target release for this study is spring 2005.

[7]IAR is a firm with 20 years of experience in providing technical assistance and conducting research and data analyses for state governments, agencies and public service organizations. IAR is a multi-faceted organization that provides both a wide set of research and technical assistance services and provides them in a broad range of public policy and program areas. Their expertise includes quantitative and qualitative research methods and programming across large data sets.

[8]For example, a center has a capacity for 7 toddlers under their license and the center reports they offer care on a regular basis for all 7 toddler slots. This center is then shown as having 7 toddler slots in setting the 75th percentile. If the center reported in the rate survey that they offered care on a regular basis to 6 toddler slot, this center would have been shown as having 65 toddler slots in setting the 75th percentile.

[9]Families may select any provider in the private market. CCAP providers is the term used throughout the report for providers reporting caring for families accessing CCAP in the last half of 2003.

[10]An analysis was done to determine if there are general tr4ends that would identify three groupings for counties. This analysis focused on where to group counties with regional centers, and those surrounding the seven county metropolitan area. The analysis of different categorizations showed that the inclusion or exclusion of counties in the regional centers group was very sensitive to the measure used to group counties. Thus, the decision was made to use the seven county metropolitan area as one group, and to include all other counties in a second group.

[11]There were two kinds of in-kind services tracked in this study. Intangible in-kind includes items and services that are contributed to the center, but cannot be directly seen or touched. This includes items such as volunteer hours or the payment of a utility bill for jointly used space. Tangible in-kind includes those kinds of contributions that can be seen or felt such as toys, food, playground equipment.

[12]Findings are weighted to represent the metropolitan/rural distribution of centers in those counties. Centers were required to serve at least 25 children in preschool and at least one other age group and be open year round. Approximately 15 percent of centers do not meet this definition across the state. The cost and revenue per child hour were calculated considering all part time and full time children in the center equated to Full Time Equivalencies (FTEs), children who do and do not access CCAP and all ages of children at the site.

[13]Benton, Brown, Blue Earth, Carlton, Chisago, Crow Wing, Dodge, Goodhue, Isanti, Le Sueur, McLeod, Meeker, Nicollet, Rice, Sherburne, Sibley, St. Louis, Stearns, Steele, Wabasha, Waseca and Wright.

[14]In rural Minnesota 53 percent show losses, with a median loss of $87.09 per child per month and 47 percent show profits, with a median profit of $35.66 per child per month.

[15]Tout & Sherman, In publication.

[16]Helburne, Morris and Modigliani, 2002. This report focuses on family child care providers paid to care for at least .5 child FTEs. Seventy percent of the providers were licensed when the survey was conducted. This may underestimate expenses and income figures.

[17]These 8.5 children enrolled may not all be full time, therefore this may not be comparable to FTEs. It is possible that some of these children are the provider's own children.

[18]4.7 children at 60 hours per week, per child, for 50 weeks per year.

[19]If a family child care provider replaced her own child in her care with a paying family's child, the percent of labor costs would be lower overall due to having higher revenue. In general, however, many provider's are choosing to provide care so that they have an opportunity to spend more time with their own child(ren) during the day and consider this to be a benefit.

[20]Federal Register, Vol. 63, No. 142. Friday, July 24, 1998. Page 39959.

[21]Based on SFY04 income entry and exit levels which were submitted with FFY2004-05 plan.

[22]The CCDF regulations address child care assistance eligibility in terms of state median income (SMI). Some states use SMI as a standard; other states used Federal Poverty Level (FPL). Minnesota used SMI until SFY04, when the Legislature changed the standard to FPG. Using one or the other as a point of comparison might lead to different conclusions.

[23]Information on the differences between the prices received by producers as measured by the PPI and the prices paid by consumers as measured in the CPI is available at http://www.bls.gov/ppi/ppicpippi.htm.

[24]The PPI does not track information based on the cost of education services.

[25]This occupation is defined as "Attend to children at schools, businesses, private households and child care institutions. Perform a variety of tasks, such as dressing, feeding, bathing, and overseeing play. Excludes 'Preschool Teachers' (25-2011) and 'Teacher Assistants' (25-9041)." Occupational Employment and Wages, May 2003. BLS: www.bls.gov/2003/may/oes399011.htm.

[26]Surrounding states include Illinois, Indiana, Iowa, Michigan, North Dakota, Ohio, South Dakota and Wisconsin.

[27]Wage penalties should also be considered when assessing wages in a field. Wage penalties are estimates of how much income a person is forfeiting by choosing to work in a field that pays less than their qualifications could command in another field. The largest wage penalty in a recent study cited child care as having the largest wage penalty (41 percent for women) of several fields including primary, secondary and higher education teachers, medical staff, social workers and religious workers (England, 2002). It is interesting to note that when estimating the wage penalty for women working in child care it is 26 percent if one is an employee but 69 percent if one is self-employed (England, 2002).

[28]Yoshikawa et. al. 2003.

[29]Maume analyzed two income groups, those above and below $6.50 an hour in 1985 dollars.

[30]The percent of income at the upper income levels is greater than 10 percent. This higher percentage decreases the cliff effect for families transitioning out of the program.

[31]Seventeen percent of recipients pay private market rates, as do 27 percent of applicants according to the MFIP Longitudinal Study. http://edocs.dhs.state.mn.us/lfserver/Legacy/DHS-3974-ENG

[32]DHS Evaluation Notes, http://edocs.dhs.state.mn.us/lfserver/Legacy/DHS-4064L-ENG

[33]Shonkoff & Phillips, 2001 p. 4.

[34]Ibid, p. 5.

[35]MDE 2003, p. 35

[36]MDE, 2003, p. 36

[37]Additional work on this area is being done by the National Institute for Child Health and Development through the Study of Early Child Care. http://156.40.88.3/od/secc/summary.htm

[38]Shonkoff & Phillips, 2001, p. 184, 52 and 263

[39]Minnesota Department of Human Services, School Readiness in Child Care Settings: A Developmental Assessment of Children in 22 Accredited Child Care Centers. In publication.

[40]Shonkoff & Phillips, 2001, p. 8

[41]The increase or decrease of one center may be a larger share of the market than the increase or decrease of one family child care provider.

[42]The information about policies in other states was provided by the National Child Care Information Center (NCCIC). The information provided indicated that fourteen states indexed their informal provider rate. Further communication with Wyoming, one of the states listed, suggested that they might not do so. Wyoming, therefore, has been omitted from the calculation of a median rate of 70 percent. The other 12 states using this method are: Arizona, California, Florida, Maine, Maryland, Montana, Nevada, New York, North Carolina, Pennsylvania, Virginia, and Wisconsin. The table from NCCIC is included as Appendix M.

[43]For example, the family child care weekly rate for a toddler is $100 in two states. State A will pay 70 percent of the weekly rate, or $70. State B will pay 80 percent but will only pay legal non-licensed providers by the hour. This family needs 40 hours of care/week. The hourly rate is $2 ($100/week divided by 50 hours). State B will therefore pay $64 (($40 x 2)*.8).

[44]Title 26, Subtitle A, Chapter 1, Subchapter B, Part III, Sec. 125 and 129.

[45]The expansion of the federal child credit (now at $1,000 per child) has increased the income level at which the federal credit for child and dependent care starts providing a benefit. Until the child credit (calculated with zero child care costs) reaches its maximum at $1,000 per child, any dollars of federal credit for child and dependent care simply cut the federal child credit by an equal amount.

[46] The following have state dependent care tax credits: Arizona, California, District of Columbia, Louisiana, Maryland, Massachusetts, Maine, Montana, North Carolina, Ohio, Rhode Island, and Vermont. (National Women's Law Center, 2004) State policies vary in how closely they mirror federal credit policies, including whether the state credit is refundable.

[47]In the analysis portion of this section, not paying Social Security tax is considered as a positive. However, it will reduce a person's Social Security benefits later in life.

[48]Potential risks include: 1) The potential loss of unused balances in the pre-tax account. This risk is relatively small because dollars are deposited from each paycheck (rather than in a lump sum). Deposits will end automatically with unemployment, and can be modified when there is a significant change in child care costs due to either a change in hours or a change in child care rates. 2) The potential loss due to lower earnings than expected. The value of pre-tax accounts depends on annual income. If deposits were made in expectation of a full year of earnings, but the parent ends up earning only half as much, the pre-tax account may end up having less value than the tax credits (especially the refundable Minnesota credit). 3) The potential loss in future Social Security benefits.

[49]Analysis was not done based on income of 100% of the federal poverty level because of limited copayments and tax liability at this income level. As allowed in the Child Care Assistance Program, medical premiums were deducted from earned income.

[50]For families eligible for CCAP, the Minnesota Care premium amounts were used in calculating income for CCAP purposes. For the 250 percent of poverty level scenario in which the family is ineligible for CCAP, the health insurance premium used is that of the exit level of MinnesotaCare ($4,200). The amount set-aside by the family in a pre-tax account is not deducted from gross income when calculating eligibility and copay amounts for CCAP.

[51]Disposable income includes earned income plus benefits from pretax account, federal and state tax refunds, Medicare tax benefit from utilization of a pre-tax account, less the family's child care payment.

[52]The Federal Earned Income Tax Credit is a credit for certain people who work. It is intended to increase work incentives and is refundable. Minnesota also has an earned income credit titled "Minnesota Working Family Credit.". The analysis of these credits was included in the scenarios and while the exit point for the Minnesota Working Family Credit is slightly more generous than the Federal Earned Income Tax Credit, the analysis results are very similar.

[53]The Alternative Care (AC) grant allocation formula is expenditure based. If a county spends at or above 95 percent of their base allocation amount for year one, they receive a base allocation amount in year two equivalent to 100 percent of the adjusted base amount, plus any inflation adjustments being applied in that year. If a county spends below 95 percent of the base allocation for year one, they receive a year two allocation equal to their year one expenditures plus five percent of their year one allocation.

[54]Metropolitan counties could be the seven county metropolitan area or could include a broader range.

List of Appendices

Appendix A

Minnesota Child Care Assistance Program

Projected Direct Service Child Care Cost and Families Served (November 2004)

State Fiscal Year	Monthly Average Families	Monthly Average Cost Per Family	Total Annual Direct Service Payments	Federal Share	State Share	County Share
MFIP/TY Child Care Assistance						
Actual						
1999	9,788	$655.11	$76,946,212	$32,862,866	$44,083,346	$0
2000	9,670	717.85	83,297,718	19,941,528	63,356,190	0
2001	9,086	803.04	87,553,769	37,690,766	49,863,003	0
2002	9,348	896.57	100,576,280	43,475,471	57,100,809	0
2003	10,198	952.01	116,507,149	44,971,600	71,535,549	0
2004	9,193	866.21	95,558,618	30,858,618	64,700,000	0
Projected						
2005	9,172	$874.96	$96,303,164	$45,210,523	$51,092,641	$0
2006	9,736	1,022.61	119,479,666	37,354,780	82,124,886	0
2007	9,965	1,064.33	127,274,902	38,189,066	89,085,836	0
2008	9,919	1,112.82	132,454,385	38,189,066	94,265,320	0
2009	9,776	1,168.77	137,107,927	38,189,066	98,918,861	0
Basic Sliding Fee						
Actual						
1999	11,163	$512.14	$68,604,184	$12,319,660	$51,371,784	$4,912,740
2000	10,085	565.22	68,403,112	45,414,394	20,046,789	2,941,929
2001	11,676	601.95	84,340,044	60,028,749	21,369,650	2,941,645
2002	11,959	641.40	92,046,461	36,886,993	52,218,233	2,941,235
2003	12,540	653.54	98,344,183	46,365,544	49,043,523	2,935,116
2004	9,132	634.13	69,490,650	38,370,905	28,172,746	2,947,000
Projected						
2005	9,655	$640.48	$74,207,129	$50,991,888	$20,274,005	$2,941,235
2006	8,902	765.57	81,783,773	47,296,666	31,545,872	2,941,235
2007	8,182	801.15	78,656,847	44,156,865	31,558,746	2,941,235
2008	7,834	836.73	78,656,847	44,156,865	31,558,746	2,941,235
2009	7,514	872.31	78,656,847	44,156,865	31,558,746	2,941,235
Total Child Care Assistance						
Actual						
1999	20,951	$578.93	$145,550,396	$45,182,525	$95,455,131	$4,912,740
2000	19,755	639.93	151,700,830	65,355,922	83,402,979	2,941,929
2001	20,762	689.95	171,893,813	97,719,515	71,232,653	2,941,645
2002	21,307	753.35	192,622,741	80,362,464	109,319,042	2,941,235
2003	22,738	787.41	214,851,332	91,337,144	120,579,072	2,935,116
2004	18,325	750.56	165,049,268	69,229,522	92,872,746	2,947,000
Projected						
2005	18,827	$754.71	$170,510,293	$96,202,411	$71,366,646	$2,941,235
2006	18,639	899.84	201,263,439	84,651,446	113,670,758	2,941,235
2007	18,147	945.67	205,931,749	82,345,931	120,644,583	2,941,235
2008	17,753	990.99	211,111,232	82,345,931	125,824,066	2,941,235
2009	17,290	1039.93	215,764,773	82,345,931	130,477,607	2,941,235

Minnesota Child Care Assistance Program

Projected Total Service Child Care Cost and Families Served (November 2004)

State Fiscal Year	Monthly Average Families	Monthly Average Cost Per Family	Total Annual Payments	Federal Share	State Share	County Share
MFIP/TY Child Care Assistance						
Actual						
1999	9,788	$687.86	$80,793,523	$34,506,009	$46,287,514	$0
2000	9,670	753.74	87,462,604	20,938,604	66,524,000	0
2001	9,086	843.19	91,931,458	39,575,305	52,356,153	0
2002	9,348	941.40	105,605,094	45,649,245	59,955,849	0
2003	10,198	999.61	122,332,568	47,220,204	75,112,364	0
2004	9,193	909.52	100,336,548	32,401,548	67,935,000	0
Projected						
2005	9,172	$918.71	$101,118,322	$47,471,049	$53,647,273	$0
2006	9,736	1,073.74	125,453,649	39,222,519	86,231,130	0
2007	9,965	1,117.55	133,638,647	40,098,519	93,540,128	0
2008	9,919	1,168.46	139,077,105	40,098,519	98,978,586	0
2009	9,776	1,227.21	143,963,323	40,098,519	103,864,804	0
Basic Sliding Fee						
Actual						
1999	11,163	$537.74	$72,034,393	$14,034,764	$53,086,889	$4,912,740
2000	10,085	591.23	71,551,534	46,988,605	21,621,000	2,941,929
2001	11,676	630.61	88,354,744	62,036,099	23,377,000	2,941,645
2002	11,959	671.00	96,295,821	39,011,673	54,342,913	2,941,235
2003	12,540	685.33	103,128,395	48,757,650	51,435,629	2,935,116
2004	9,132	662.26	72,572,731	39,911,945	29,713,786	2,947,000
Projected						
2005	9,655	$672.50	$77,917,485	$52,865,250	$22,111,000	$2,941,235
2006	8,902	803.85	85,872,962	49,279,727	33,652,000	2,941,235
2007	8,182	841.21	82,589,689	45,996,454	33,652,000	2,941,235
2008	7,834	878.57	82,589,689	45,996,454	33,652,000	2,941,235
2009	7,514	915.93	82,589,689	45,996,454	33,652,000	2,941,235
Total Child Care Assistance						
Actual						
1999	20,951	$607.87	$152,827,916	$48,540,773	$99,374,403	$4,912,740
2000	19,755	670.78	159,014,138	67,927,209	88,145,000	2,941,929
2001	20,762	723.64	180,286,202	101,611,404	75,733,153	2,941,645
2002	21,307	789.63	201,900,915	84,660,918	114,298,762	2,941,235
2003	22,738	826.29	225,460,963	95,977,854	126,547,993	2,935,116
2004	18,325	786.31	172,909,280	72,313,494	97,648,786	2,947,000
Projected						
2005	18,827	$792.45	$179,035,807	$100,336,299	$75,758,273	$2,941,235
2006	18,639	944.83	211,326,611	88,502,246	119,883,130	2,941,235
2007	18,147	992.96	216,228,336	86,094,973	127,192,128	2,941,235
2008	17,753	1,040.54	221,666,794	86,094,973	132,630,586	2,941,235
2009	17,290	1,091.92	226,553,012	86,094,973	137,516,804	2,941,235

Appendix B
2003 session highlights

Child care assistance changes

The 2003 Legislature made reforms to the child care assistance program to focus on the lowest income working families and control future growth, while helping balance the state budget. State funding was reduced by $86 million over the biennium. Program integrity was also strengthened.

Services for the lowest income families

Child care assistance was reformed to serve the lowest income working families.

- Families earning 175 percent of the federal poverty level ($26,705 for a family of three) or less will be eligible for the Basic Sliding Fee program, leaving the program when their earnings are 250 percent of poverty ($38,150 for a family of three).
- Assistance for the Minnesota Family Investment Program (MFIP) child care and the transition year (first year after leaving MFIP) remain as forecasted programs.
- Child care assistance is available for MFIP families participating in social service programs.
- Families completing their transition year who live in counties with significant waiting lists for Basic Sliding Fee can continue to receive child care assistance.

Controlling spending

Provisions were enacted to restrain future spending, by freezing child care provider rates and increasing family contributions.

- The At-Home Infant Care program is eliminated.
- Co-payments by parents are increased.
- Maximum provider rates were frozen at the current level.
- A study will be conducted to review current rates and recommend a new rate-setting mechanism.
- Legal nonlicensed providers will be paid hourly rates fixed at 80 percent of licensed family rates.
- Accreditation bonus payments are eliminated.
- Providers will not receive assistance payments for their own children or those in their custody.

Program improvements

Program improvements were made to strengthen program integrity and prevent fraud.

- Providers are required to repay overpayments from billing errors and provider fraud; disqualification periods are set for those convicted of fraud.
- An administrative appeal process is established for provider registration denials, penalties and disqualifications.
- Registration requirements for legal nonlicensed providers include minimum safety standards.

Appendix C

Minnesota Session Laws 2003, First Special Session, Chapter 14

Sec. 34. [DIRECTION TO COMMISSIONER; PROVIDER RATES.]
The provider rates determined under Minnesota Statutes, section 119B.13, for fiscal year 2003 and implemented on July 1, 2002, are to be continued in effect through June 30, 2005. The commissioner of human services is directed to evaluate the costs of child care in Minnesota, to examine the differences in the cost of child care in rural and metropolitan areas, and to make recommendations to the legislature for containing future cost increases in the child care program under Minnesota Statutes, chapter 119B, in a manner that complies with federal child care and development block grant requirements for promoting parental choice and permits the department to track the effect of rate changes on child care assistance program costs, the availability of different types of care throughout the state, the length of waiting lists, and the care options available to program participants. The commissioner shall also examine the allocation formula under Minnesota Statutes, section 119B.03, and make recommendations to the legislature in order to create a more equitable formula. The commissioner shall consider the impact any recommendations might have on work incentives for low and middle income families and possible changes to MFIP child care, basic sliding fee child care, and the dependent care tax credit. The commissioner shall make recommendations to the legislature by January 15, 2005. The commissioner shall also study the relationship between child care assistance subsidies and tax credits or tax incentives related to child care expenses, and include this information in the January 15, 2005, report to the legislature under this section.

Appendix D

The Child Care and Development Block Grant Act of 1990 (42 USC 9801 et seq.), as amended by the Personal Responsibility and Work Opportunity Act of 1996 (Public Law 104-193) and the Balanced Budget Act of 1997 (Public Law PL 105-33).

SEC. 658A. SHORT TITLE AND GOALS.

(a) Short Title-This subchapter may be cited as the `Child Care and Development Block Grant Act of 1990'.

(b) Goals-The goals of this subchapter are-

(1) to allow each State maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within such State;

(2) to promote parental choice to empower working parents to make their own decisions on the child care that best suits their family's needs;

(3) to encourage States to provide consumer education information to help parents make informed choices about child care;

(4) to assist States to provide child care to parents trying to achieve independence from public assistance; and

(5) to assist States in implementing the health, safety, licensing, and registration standards established in State regulations.

SEC. 658D. LEAD AGENCY.

(a) Designation-The chief executive officer of a State desiring to receive a grant under this subchapter shall designate, in an application submitted to the Secretary under section 658E, an appropriate State agency that complies with the requirements of subsection (b) to act as the lead agency.

(b) Duties -

(1) In general-The lead agency shall-

(A) administer, directly or through other State governmental or nongovernmental agencies, the financial assistance received under this subchapter by the State;

(B) develop the State plan to be submitted to the Secretary under section 658E(a);

(C) in conjunction with the development of the State plan as required under subparagraph (B), hold at least one hearing in the State with sufficient time and Statewide distribution of the notice of such hearing to provide to the public an opportunity to comment on the provision of child care services under the State plan; and

(D) coordinate the provision of services under this subchapter with other Federal, State and local child care and early childhood development programs.

(2) Development of plan-In the development of the State plan described in paragraph (1)(B), the lead agency shall consult with appropriate representatives of units of general purpose local government.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
Administration for Children and Families
45 CFR Parts 98 and 99
RIN 0970-AB74
Child Care and Development Fund
AGENCY: Administration for Children and Families (ACF), HHS
ACTION: Final rule.
SUPPLEMENTARY INFORMATION:
Background

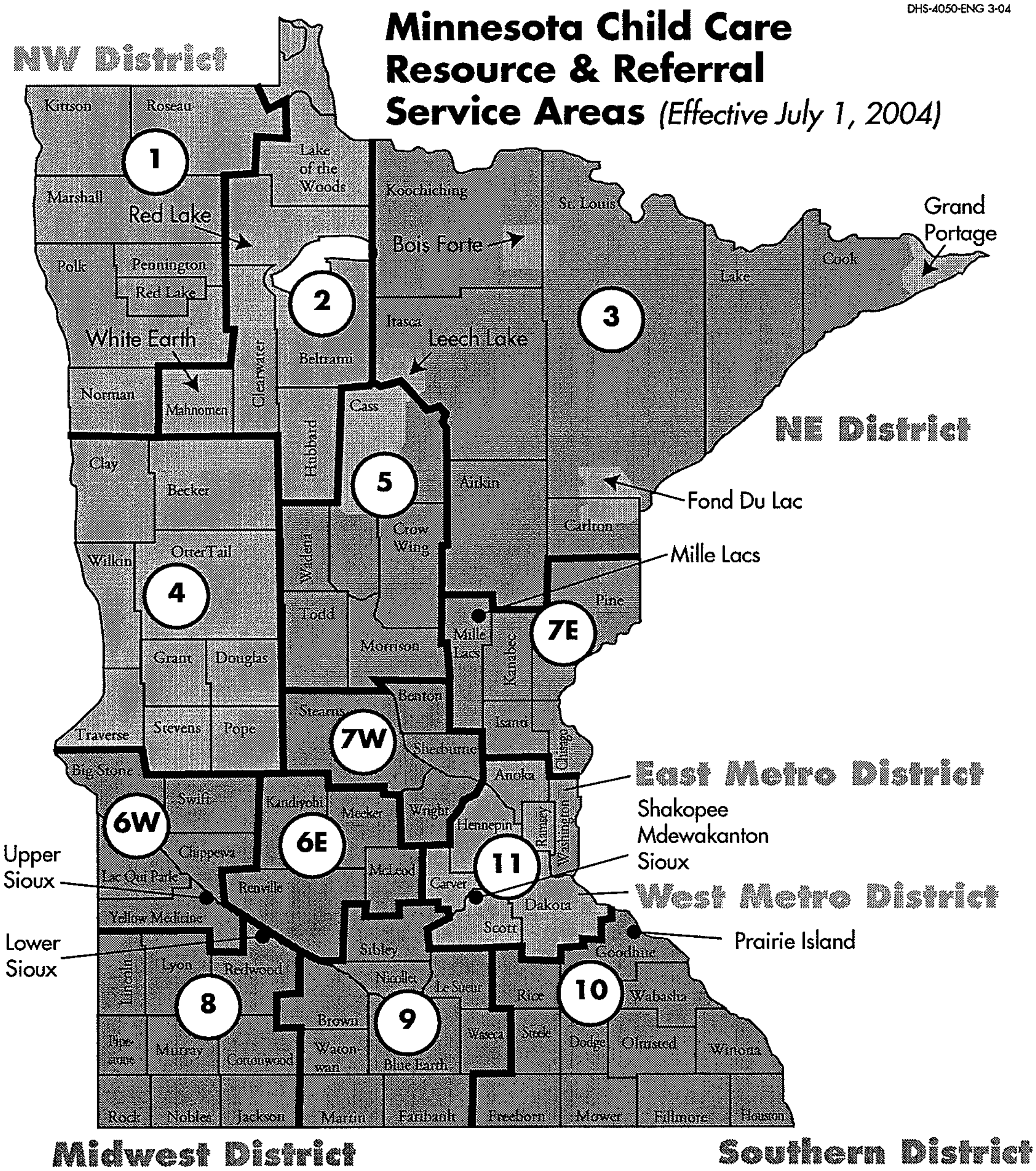
"The primary goals of this rule are to:
--Amend the CCDBG regulations in light of the child care amendments under title VI of PRWORA,
--achieve a balance between program flexibility and accountability,
--assure the health and safety of children in child care,
--recognize that child care is a key support for work, as envisioned in TANF, and
--clarify, streamline, simplify, and unify the Federal child care program."

> [[Page 39942]]
> *"Employment is the goal for most TANF families and employment services are critical to the low-income working families served by the CCDF. Therefore, it is only prudent that the Lead Agency coordinate with those State agencies that are responsible for providing employment and employment-related services. But child care is also emerging as an important workforce development issue for the entire population. As such, we believe that Lead Agencies should undertake policies that support and encourage public-private partnerships that promote high quality child care.*

Appendix E

DHS-4050-ENG 3-04

Minnesota Child Care Resource & Referral Service Areas *(Effective July 1, 2004)*



Governor's Economic Development Regions indicated by numbers and bold outlines

MN CCR&R Network Office:	380 Lafayette Road St. Paul, MN 55107 (866) 807-6021 www.mnchildcare.org	MN CCR&R Tribal District:	MN Tribal Resources for Early Childhood Care (MN TRECC) 6530 Hwy 2 NW Cass Lake, MN 56633 (800) 551-0969

Median Rates for Toddlers by Region

	Average Number of Providers Reporting	Median Rate		Change in Median Rate ($)	Total Percentage Change in Median Rate	Average Annual Percentage Change in Median Rate
Center Weekly Rates		1998	2004	1998-2004	1998-2001	1998-2004
Region 1 & 2	7	$82	$115	$33	40.40%	7.20%
Region 3*	8	$119	*$133	*$14	*11.60%	*3.6%
Region 4 & 5	9	$90	$118	$28	30.60%	5.60%
Region 6E	6	$103	$116	$13	12.70%	4.50%
Region 6W & 8 & 9	14	$90	$115	$25	27.80%	5.30%
Region 7E	9	$101	$153	$52	51.50%	10.10%
Region 7W	33	$110	$140	$30	27.30%	4.30%
Region 10	26	$110	$135	$25	22.70%	6.00%
Region 11	348	$155	$204	$49	31.60%	5.70%
*Because of an insufficient number of providers reporting rates in 2004, for Region 3 we report the 2002 median rate and the change between 1998 and 2002. Note: Regions with fewer than 6 providers reporting are combined with neighboring regions.						
Family Weekly Rates		1998	2004	1998-2004	1998-2001	1998-2004
Region 1	33	$75	$90	$15	20.00%	3.80%
Region 2	76	$79	$100	$21	27.00%	5.10%
Region 3	33	$95	$113	$18	18.40%	3.60%
Region 4	138	$80	$95	$15	18.80%	3.50%
Region 5	95	$80	$113	$33	40.60%	7.20%
Region 6E	30	$83	$100	$17	20.10%	4.30%
Region 6W, 8, & 9	208	$79	$100	$21	27.00%	5.00%
Region 7E	108	$85	$110	$25	29.40%	5.40%
Region 7W	723	$85	$105	$20	23.50%	4.40%
Region 10	438	$90	$115	$25	27.80%	5.10%
Region 11	3,556	$100	$130	$30	30.00%	5.50%
Family Hourly Rate		1998	2004	1998-2004	1998-2001	1998-2004
Region 1	284	$1.75	$2.00	$0.25	14.30%	2.70%
Region 2	109	$1.82	$2.00	$0.18	9.90%	1.90%
Region 3	552	$2.00	$2.25	$0.25	12.50%	2.50%
Region 4	493	$1.75	$2.00	$0.25	14.30%	2.80%
Region 5	349	$1.90	$2.00	$0.10	5.30%	1.10%
Region 6E	347	$1.80	$2.00	$0.20	11.10%	2.20%
Region 6W	185	$1.70	$2.00	$0.30	17.60%	3.40%
Region 7E	169	$2.00	$2.50	$0.50	25.00%	5.20%
Region 7W	582	$2.00	$2.17	$0.17	8.50%	1.70%
Region 8	434	$1.75	$2.00	$0.25	14.30%	2.90%
Region 9	613	$1.85	$2.00	$0.15	8.10%	1.60%
Region 10	971	$2.00	$2.35	$0.35	17.50%	3.40%
Region 11	1,818	$3.00	$5.00	$2.00	66.70%	11.10%

Appendix F

Family child care budget methodology

Background

The basis for the family child care (FCC) Budget Analysis process originated with the 1993 Economics of Family Child Care Study. The study used financial data from telephone interviews with providers to construct a budget of expenditures and revenues for paid family child care providers. The providers were nonrelative, paid, urban and suburban, licensed and unlicensed and working in three regions of the country-Charlotte, NC; Dallas-Fort Worth, TX; and, Los Angeles, CA.

This study was subsequently updated by the researchers twice. The first update was provided in a one-page spreadsheet which reflected data updated to year 2000 Consumer Price Index-Urban (CPI-U) and Consumer Price Index-Food Only. The second update, located in the Early Childhood Research Quarterly 17, (2002), reflected corrections to the data (number of providers) and updated 2000 CPI-U.

Metropolitan Area Comparison

As the previously mentioned study included three metropolitan areas, it was necessary to determine whether the data would be applicable for the metropolitan area in Minnesota. To do so, real estate and other related housing costs between the metropolitan areas were compared. The data elements were collected from the Census Bureau's Housing Surveys and updated to reflect 2000 CPI-U. Median housing costs as well as real estate costs were reviewed. Based on the analysis, it was determined that the costs in each of the metropolitan areas were comparable to those of the Minneapolis/St. Paul area.

Minnesota

2000 Data

Using the percentage of income, percentage of income dedicated to expenses and percentage of income spent on indirect expenditures derived from the 1993 study updated for 2000, it was possible to breakout an estimate for Minnesota. To determine income and expenditures, data from the Wilder Research Center study, April 2001, was used. Income data (parent fees and Child and Adult Care Food Program reimbursement) in the Wilder study reflected numbers from 1999. These data were updated using 2000 CPI-U. Expenses in the study were 2000 reported expenditures, so it was not necessary to update these figures.

2001-2004 Data

All income amounts in 2001-2002; 2002 to 2004 (July to July) were updated to reflect increases in provider rates as well as Child and Adult Food Program reimbursements. Expenses were updated to reflect CPI-U average inflation index (July to July for each year).

Both *Median* and *Mean* were analyzed in order to provide a comparison. However, in subsequent analyses, only median figures were used. The rationale for using median only is provided in the footnote in the following section.

Metropolitan and Rural Analysis (2000 and 2003)
2000 Data

Data used to determine rural and metropolitan figures were extracted from the Census Bureau Small Area Income and Population Estimates.[1]

Determining Metropolitan and rural median income
It was determined that the Minnesota statewide median income (2000) was $49,170 based upon review of the Census Bureau's data. The median income for rural Minnesota is $37,969 (22.7 percent lower than statewide median income) and the median income for the metropolitan area is $59,369 (20.7 percent higher than the statewide median income).

These percentages were then applied to the median income (identified in our analysis) to determine estimates for rural FCC income and metropolitan Minnesota FCC income. Expense amounts were based on percentages identified in previous work identified above.

2001-2004 Metropolitan and rural
As stated earlier, all income amounts in 2001-2002; 2002 to 2004 (July to July) were updated to reflect increases in provider rates as well as Child and Adult Food Program reimbursements. Expenses were updated to reflect CPI-U average inflation index (July to July for each year).

Child Care Bureau

Child Care Assistance Income Eligibility Thresholds and State Median Income (SMI), Family of Three, 2001-2003

A CHILD CARE AND DEVELOPMENT FUND (CCDF) DATA SUMMARY

State/Territory	2001			2003			
	85% of Monthly State Median Income (SMI)[1]	Monthly Income Eligibility Level Lower Than 85% of SMI *if* Used to Limit Eligibility	Monthly Income Eligibility Level as a Percentage of SMI	85% of Monthly State Median Income (SMI)[1]	Monthly Income Eligibility Level Lower Than 85% of SMI *if* Used to Limit Eligibility	Monthly Income Eligibility Level as a Percentage of SMI	SMI Year
Alabama	$3,118.00	$1,585.00	43%	$3,248.00	$1,653.00	43%	2004
Alaska	$4,481.00	NA	85%	$4,263.00	$3,853.00[2]	77%	2002
American Samoa	NK	NK	NK	$925.00	NA	85%	1995
Arizona	$3,156.00	$2,013.00	54%	$3,336.00	$2,099.00	53%	2004
Arkansas	$2,776.92	$1,960.21	60%	$2,846.43	$2,009.25	60%	2003
California	$3,315.00	$2,925.00	75%	$3,315.00	$2,925.00	75%	1998
Colorado[3]	$3,774.00	$2,743.00	62%	$3,964.00	$2,862.00	61%	2003
Commonwealth of the Northern Mariana Islands	NK	NK	NK	$1,533.00	NA	85%	NR
Connecticut	$4,495.00	$3,966.00	75%	$4,910.00	$2,889.00	50%	2004
District of Columbia	$3,706.00	$3,470.00	80%	$3,773.00	$3,470.00	78%	2003
Delaware	$3,902.00	$2,440.00	53%	$4,127.00	$2,544.00	52%	2003
Florida	NK	NK	NK	$3,293.00	$2,543.00[4]	66%	2003
Georgia	$3,569.00	NA	85%	$3,792.00	$2,035.00	46%	2003
Guam	NK	NK	NK	$1,908.00	NA	85%	NA[5]

Compiled from State Child Care and Development Fund Plans, FFY 2002-2003 and FFY 2004-2005, effective October 1, 2001 and October 1, 2003 respectively. Many CCDF State Plans are available online and can be accessed from http://nccic.org/pubs/stateplan/app-urls.html.
For more information please contact NCCIC, 243 Church Street NW, 2nd Floor, Vienna, VA 22180
Phone: (800) 616-2242; Fax: (800) 716-2242; TTY: (800) 516-2242; E-mail: info@nccic.org; Web site: http://nccic.org.

State/Territory	2001			2003			
	85% of Monthly State Median Income (SMI)[1]	Monthly Income Eligibility Level Lower Than 85% of SMI *if* Used to Limit Eligibility	Monthly Income Eligibility Level as a Percentage of SMI	85% of Monthly State Median Income (SMI)[1]	Monthly Income Eligibility Level Lower Than 85% of SMI *if* Used to Limit Eligibility	Monthly Income Eligibility Level as a Percentage of SMI	SMI Year
Hawaii	$3,479.00	$3,274.00	80%	$3,678.00	NA	85%	2001
Idaho	$2,838.00	$1,706.00	51%	$3,197.00	$1,706.00	45%	2003
Illinois	$3,948.00	$1,818.00	39%	$3,958.00	$2,328.00	50%	2004
Indiana	$3,289.40	$2,207.00	57%	$3,694.00	$1,615.00	37%	2003
Iowa	$3,455.00	$1,890.00	47%	$3,669.00	$1,780.00	41%	2004
Kansas	$3,874.00	$2,255.00	49%	$3,379.00	$2,353.00	59%	2003
Kentucky	$3,105.00	$2,012.00	55%	$3,232.00	$1,908.00[6]	50%	2004
Louisiana	$2,942.00	$2,077.00	60%	$2,942.00	$2,596.00	75%[7]	2002
Maine	$3,038.01	NA	85%	$3,343.08[8]	NA	85%	2003
Maryland	$4,451.00	$2,095.00	40%	$4,249.00	$2,499.00	50%	2002
Massachusetts	$4,104.00	NA	50%	$4,104.00	$2,414.00[6]	50%	2000
Michigan	NK	NK	NK	$4,090.00	$1,990.00	41%	2003
Minnesota	$3,967.00	$3,501.00	75%	$4,322.00	$2,225.00[9]	44%	2004
Mississippi	$2,513.00	NA	85%	$2,513.00	NA	85%	2000
Missouri	$3,010.00	$1,482.00	42%	$3,631.00	$1,482.00	35%	2001
Montana	$3,032.00	$1,829.00	51%	$2,861.00	$1,878.00[4]	56%	2004
Nebraska	$3,373.00	$2,104.99	53%	$3,394.00	$1,463.00	37%	2003
Nevada	$3,539.00	$3,123.00	75%	$3,527.00	$3,112.00	75%	2004

Compiled from State Child Care and Development Fund Plans, FFY 2002-2003 and FFY 2004-2005, effective October 1, 2001 and October 1, 2003 respectively.
Many CCDF State Plans are available online and can be accessed from http://nccic.org/pubs/stateplan/app-urls.html.
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Phone: (800) 616-2242; Fax: (800) 716-2242; TTY: (800) 516-2242; E-mail: info@nccic.org; Web site: http://nccic.org.

State/Territory	2001			2003			
	85% of Monthly State Median Income (SMI)[1]	Monthly Income Eligibility Level Lower Than 85% of SMI *if* Used to Limit Eligibility	Monthly Income Eligibility Level as a Percentage of SMI	85% of Monthly State Median Income (SMI)[1]	Monthly Income Eligibility Level Lower Than 85% of SMI *if* Used to Limit Eligibility	Monthly Income Eligibility Level as a Percentage of SMI	SMI Year
New Hampshire	$3,630.00	$2,648.00	62%	$4,264.00	$2,407.00	48%[7]	2000
New Jersey	$4,223.50	$3,047.92	61%	$4,674.00	$3,179.00	58%	2003
New Mexico	$2,658.00	$2,438.00	78%	$3,016.27	$2,543.33	72%	2002
New York	$3,400.00	$2,438.00	61%	$3,839.00	$2,543.00	56%	2003
North Carolina	$3,232.00	$2,852.00	75%	$3,339.00	$2,946.00	75%	2002
North Dakota	$3,035.00	$2,463.00	69%	$3,281.00	$2,463.00	64%	2004
Ohio	$3,346.00	$2,255.00	57%	$3,825.00	$1,272.00	28%	2003
Oklahoma	$3,110.00	$1,936.00	53%	$2,883.00	$2,825.00[9]	83%	2003
Oregon	$3,208.00	$2,255.00	60%	$3,495.00	$1,908.00	46%	2003
Pennsylvania	$3,543.00	$2,438.00	58%	$3,934.74	$2,543.33	55%	2004
Puerto Rico	$1,279.00	NA	85%	$1,279.00	NA	85%	1994
Rhode Island	$3,844.50	$2,743.17	61%	$4,192.00	$2,861.00	58%	2003
South Carolina	$3,330.00	$1,829.00	47%	$3,349.00	$1,908.00	48%	2003
South Dakota	$3,504.00	$1,829.00	44%	$3,553.00	$2,544.00	61%	2003
Tennessee	$3,093.00	$2,027.00	56%	$3,336.00	$2,355.00	60%	2004
Texas[3, 10]	$3,171.00	NA	85%	$3,368.00	NA	85%	2003
Utah	$3,406.00	$2,244.00	56%	$3,406.00	$2,244.00	56%	2002
Vermont	$2,867.33	$2,586.00	77%	$2,664.00	$2,586.00	83%	1999

Compiled from State Child Care and Development Fund Plans, FFY 2002-2003 and FFY 2004-2005, effective October 1, 2001 and October 1, 2003 respectively. Many CCDF State Plans are available online and can be accessed from http://nccic.org/pubs/stateplan/app-urls.html.
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State/Territory	2001			2003			
	85% of Monthly State Median Income (SMI)[1]	Monthly Income Eligibility Level Lower Than 85% of SMI *if* Used to Limit Eligibility	Monthly Income Eligibility Level as a Percentage of SMI	85% of Monthly State Median Income (SMI)[1]	Monthly Income Eligibility Level Lower Than 85% of SMI *if* Used to Limit Eligibility	Monthly Income Eligibility Level as a Percentage of SMI	SMI Year
Virginia[11]	$3,829.00	$1,950.00	43%	$4,141.00	$1,908.00	39%	2004
Virgin Islands	NK	NK	NK	$2,022.50	NA	85%	2000
Washington	$3,670.00	$2,743.00	64%	$3,821.00	$2,544.00	57%	2003
West Virginia	$2,689.00	$2,358.00	75%	$2,943.00	$1,769.00[6]	51%	2004
Wisconsin	$3,774.00	$2,255.00	51%	$3,894.00	$2,353.00[6]	51%	2004
Wyoming	$3,310.00	$2,255.00	58%	$3,324.00	$2,544.00	65%	2003

Sources: Information compiled from State CCDF Plans, FFY 2002-2003 and FFY 2004-2005, effective October 1, 2001 and October 1, 2003 respectively. Approved Plans for Florida, Michigan, American Samoa, Commonwealth of the Northern Mariana Islands, Guam, and the Virgin Islands were not included in the FFY 2002-2003 summary.

Key: NA – Not Applicable; NK – Not Known; NR – Not Reported

Notes:

[1] Monthly State Median Income is derived based on information provided in the State Plans, which does not necessarily coincide with most recent year SMI. SMI used by each State is indicated. In 2003, the Federal Poverty Level (FPL) for a family of three for the 48 contiguous States and the District of Columbia was $15,260. The FPL for Alaska was $19,070 and the FPL for Hawaii was $17,550. See *Federal Register*, Vol. 68, No. 26, February 7, 2003, pp. 6456–6458.

[2] The adjusted gross income levels that Alaska reported are equal to 85% SMI less an estimated amount of the 2002 Alaska Permanent Fund Dividend, which is not used in calculating the adjusted gross income amount.

[3] Colorado and Texas permit sub-State jurisdictions to set different income eligibility limits. In Texas, local Workforce Boards set their own income eligibility limits to meet local needs, within the State-imposed cap of 85% of SMI; the State reported that most Boards have established limits that are below 85% of SMI.

[4] Florida and Montana each have a two-tiered eligibility threshold and reported the upper limit, which is applied to families already receiving child care assistance.

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Notes (continued):
[5] The Lead Agency reported that there is no current SMI calculated for Guam and it uses 150% of the 2003 Federal Poverty Income Guidelines for Contiguous States and the District of Columbia to limit eligibility.
[6] Kentucky, Massachusetts, Minnesota, and Wisconsin each have a two-tiered eligibility threshold. Kentucky, Massachusetts, and Wisconsin reported the lower limit, which is applied to families newly applying for child care assistance; Minnesota and West Virginia reported both limits, the lower of which is included here.
[7] New Hampshire SMI is derived from information reported in FFY 2004-2005 CCDF Plan, from which the percentage was calculated.
[8] Maine's Monthly State Median Income was derived from its annual SMI ($40,117) as reported in the plan.
[9] Oklahoma's maximum eligible income threshold depends on the number of children in care.
[10] Texas' FFY 2002-2003 CCDF Plan extended into FFY 2004; data reported are from the draft Texas FFY 2004-2005 CCDF Plan.
[11] Virginia thresholds reflect local cost of living and are established for three groups of localities. Income limits are set at or below a defined percentage of the Federal Poverty Level (FPL), adjusted for family size, ranging from 150% FPL to 185% FPL.

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Child Care Bureau

Child Care Assistance Family Copayment Policies Family of Three, 2003[1]

A Child Care and Development Fund (CCDF) Data Summary

State/Territory	Monthly Upper Income Level at Which Maximum Fee is Required[2]	Are Families at or Below Poverty Required to Pay a Fee?	Minimum Family Fee (full-time care)	Maximum Family Fee (full-time care)	Is the Same Sliding Fee Scale Used in All Parts of the State?[3]	Does the State Prohibit Providers from Charging Families Any Unsubsidized Portion of Providers' Normal Fees?
Alabama[4]	$2,543.00	Some	$5.00/week	$72.50/week	Yes	No
Alaska[5]	$3,854.00	Some	$13.00/month	$766.00/month	Yes	No
Arizona	$2,099.00	Some	$1.00/day $0.50/day 2nd child	$10.00/day $5.00/day 2nd child	Yes	No
Arkansas	$2,009.26	None	0% of fee	100% of fee	Yes	Yes
California	$2,925.00	None	$2.00/day	$10.50/day	Yes	No
Colorado	$4,000.00	Some	$6.00/month	$560.00/month plus $20.00 each additional child	Yes	Yes
Connecticut	$4,332.00	Some	2% of gross income	10% of gross income	Yes	No
Delaware	$2,544.00	Some	1% of cost of care	80% of cost of care	Yes	Yes[6]
District of Columbia	$2,892.00	Some	$0.00	$13.08/day, 1st child $22.89/day, 2nd child	Yes	Yes
Florida	Varies by locality	Some	$0.80/day	$11.20/day	No	No

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State/Territory	Monthly Upper Income Level at Which Maximum Fee is Required[2]	Are Families at or Below Poverty Required to Pay a Fee?	Minimum Family Fee (full-time care)	Maximum Family Fee (full-time care)	Is the Same Sliding Fee Scale Used in All Parts of the State?[3]	Does the State Prohibit Providers from Charging Families Any Unsubsidized Portion of Providers' Normal Fees?
Georgia	$2,201.00	Some	$0.00	$45.00/week	Yes	No
Hawaii	$3,678.00	None	0% of reimbursement rate ceiling	20% of reimbursement rate ceiling	Yes	No
Idaho	$1,706.00	Some	7% of cost of care	100% of cost of care	Yes	No
Illinois	$2,328.00	All	$4.33/month, one child $8.67/month, two children	$186.32/month, one child $320.64/month, two children	Yes	Yes[6]
Indiana	$1,590.00	None	$0.00	9% of gross income[7]	Yes	No
Iowa	$2,316.00	None	$0.00	$12.00/day for full-day	Yes	Yes
Kansas	$2,353.00	Some	$0.00	$243.00/month	Yes	Yes
Kentucky	$2,099.00	Some	$0.00	$10.50/day, one child $11.50/day, two or more children	Yes	No
Louisiana	$2,596.00	Some	30% of cost of care	70% of cost of care	Yes	No
Maine	$3,038.01	Some	2% of gross income	10% of gross income	Yes	No

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State/Territory	Monthly Upper Income Level at Which Maximum Fee is Required[2]	Are Families at or Below Poverty Required to Pay a Fee?	Minimum Family Fee (full-time care)	Maximum Family Fee (full-time care)	Is the Same Sliding Fee Scale Used in All Parts of the State?[3]	Does the State Prohibit Providers from Charging Families Any Unsubsidized Portion of Providers' Normal Fees?[6]
Maryland[8]	$2,499.17	Some	$4.00/month, 1st child $4.00/month, 2nd & 3rd child	$146.00/month, 1st child $116.00/month, 2nd & 3rd child	No	No
Massachusetts	$4,104.00	None	$0.00	$120.00/week	Yes	Yes[6]
Michigan	$1,990.00	Some	5% of reimbursement rate ceiling	30% of reimbursement rate ceiling	Yes	No
Minnesota	$3,704.50	Some	$5.00/month	$741.00/month	Yes	No
Mississippi	$2,583.25	Some	$10.00/month, 1 child $20.00/month, 2 children	$180.00/month, 1 child $190.00/month, 2 children	Yes	No
Missouri	$1,482.00	Some	$1.00/year	$4.00/day/child	Yes	Yes[6]
Montana[9]	$1,878.00	Some	$10.00/month	$263.00/month	Yes	No
Nebraska	$2,255.00	None	$48.00/month, 1 child $96.00/month, 2 children	$214.00/month, 1 child $428.00/month, 2 children	Yes	Yes[6]
Nevada	$3,112.00	Some	0% of child care benefit	85% of child care benefit	Yes	No
New Hampshire	$2,914.00	Some	$0.00	$0.50/week	Yes	No
New Jersey[10]	$3,179.17	Some	$0.00	$294.90/month, 1st child $221.20/month, 2nd child	Yes	Yes[6]

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State/Territory	Monthly Upper Income Level at Which Maximum Fee is Required[2]	Are Families at or Below Poverty Required to Pay a Fee?	Minimum Family Fee (full-time care)	Maximum Family Fee (full-time care)	Is the Same Sliding Fee Scale Used in All Parts of the State?[3]	Does the State Prohibit Providers from Charging Families Any Unsubsidized Portion of Providers' Normal Fees?
New Mexico	$2,550.00	Some	$0.00	$205/month, 1 child $307.50/month, 2 children (one-half the copay for the 1st child)	Yes	Yes
New York[11]	Varies by locality	Some	Varies by locality	Varies by locality	No	No
North Carolina	$2,852.00	Some	10% of gross income	10% of gross income	Yes	No
North Dakota	$2,463.00	Some	20% of reimbursement rate ceiling, to a maximum of $42/month	80% of reimbursement rate ceiling, to a maximum of $365/month	Yes	No
Ohio	$2,099.00[12]	Some	$1.00/month	$203.00/month	Yes	Yes
Oklahoma[13]	$2,918.00	Some	$0.00	$263.00/month	Yes	Yes
Oregon	$1,900.00	Some	$43.00/month	$399.00/month	Yes	No
Pennsylvania	$2,988.42	Some	$5.00	$70.00/week	Yes	No
Puerto Rico	$1,054.00	None	$0.00/week[14]	$43.00/week	Yes	No
Rhode Island	$2,861.25	None	$0.00	14% of gross income	Yes	Yes
South Carolina	$2,225.00	Some	$3.00/child/week	$11.00/child/week	Yes	No
South Dakota	$2,544.00	None	$10.00/month minimum	15% of family income	Yes	No
Tennessee	$2,355.00	Some	$1.00/week, 1 child $2.00/week, 2 children	$47.00/week, 1 child $83.00/week, 2 children	Yes	No

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State/Territory	Monthly Upper Income Level at Which Maximum Fee is Required[2]	Are Families at or Below Poverty Required to Pay a Fee?	Minimum Family Fee (full-time care)	Maximum Family Fee (full-time care)	Is the Same Sliding Fee Scale Used in All Parts of the State?[3]	Does the State Prohibit Providers from Charging Families Any Unsubsidized Portion of Providers' Normal Fees?
Texas	Varies by locality[15]	Some	11% of gross monthly income, 1 child 13% of gross monthly income, 2 or more children.	11% of gross monthly income, 1 child 13% of gross monthly income, 2 or more children.	No	No
Utah	Not Reported[15]	Some	$10.00/week, 1 child $15.00/week, 2 children $18.00/week, more than 2 children	$255.00/week, 1 child $281.00/week, 2 children $306.00/week, more than 2 children	Yes	No
Vermont	$2,586.00	None	0% of reimbursement rate ceiling	90% of reimbursement rate ceiling	Yes	No
Virginia	$2,353.00	Some	10% of gross monthly income[16]	10% of gross monthly income	No	No
Washington	$2,544.00	Some	$15.00/month	$50.00/month plus 44% of the difference between family income and 137.5% of FPL (calculated at $399.80/month at the highest income level)	Yes	Yes
West Virginia	$2,181.00[17]	Some	$0.00	$5.75 per child[18]	Yes	Yes

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State/Territory	Monthly Upper Income Level at Which Maximum Fee is Required[2]	Are Families at or Below Poverty Required to Pay a Fee?	Minimum Family Fee (full-time care)	Maximum Family Fee (full-time care)	Is the Same Sliding Fee Scale Used in All Parts of the State?[3]	Does the State Prohibit Providers from Charging Families Any Unsubsidized Portion of Providers' Normal Fees?
Wisconsin	$2,543.00	Some	$4.00/week, 1 child licensed care $2.00/week, 1 child certified care Higher fee for additional children	$55.00/week, 1 child licensed care $39.00/week, 1 child certified care Higher fee for additional children	Yes	No
Wyoming	$2,544.00	All	$0.40/day per child	$4.00/day per child	Yes	No

Sources: Information compiled from State CCDF Plans, FFY 2004-2005, effective October 1, 2003.

Notes:

1 Information reported is based on a family of three (including one or two children) with no infants or children with special needs. Some States provide different fee scales for families with infants and/or children with special needs.

2 Where the Lead Agency provided information on an annual income, income was divided by 12 and reported as "monthly." Where the Lead Agency reported information on a weekly income, it was multiplied by four and reported as "monthly." All monthly income levels were rounded to the nearest dollar.

3 Where the Lead Agency provided different sliding fee scales for different localities, the locality used is the one containing the largest urban area in the State.

4 Families with more than one child in care pay one-half the applicable fee for each sibling in care.

5 Sliding fees set as a percentage of adjusted gross income, varying by family income level expressed as a percentage of SMI. The minimum fee is based on the lowest level of the sliding fee scale, 1% of adjusted gross income.

6 Delaware, Illinois, Massachusetts, Missouri, Nebraska, and New Jersey prohibit some providers from charging fees in addition to copayment fees established by the State.

7 In Indiana, copay amounts vary by how long a family receives child care assistance; the maximum family fee applies in the third year of receipt.

8 In Maryland, copay amounts vary by age of child, as well as by family income and size.

9 Montana has a flat fee of $10.00/month at the lowest income eligibility levels, but bases fees at higher income levels on percentage of gross monthly income; at the highest income level, the copayment represents 14% of gross monthly income.

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Notes (continued):

[10] The maximum fee listed for New Jersey applies only in cases where a family receiving services applies for redetermination of eligibility to continue to receive services; for families making initial application to receive child care assistance, at a maximum income level of $2,543.33, the maximum fee is $180.55/month for the 1st child and $209.15/month for the 2nd child.

[11] Each Social Service District in New York State selects its own fee percentage, within a range permitted by the State (between 10 and 35 percent, to calculate the family contribution towards child care); The family share is determined by applying the percentage to the excess of the family's gross annual income over the State income standard for the size of family in question, divided by 52. The selections of the local departments of social services are subject to the approval of the State. The Lead Agency did not report data for any Social Service District.

[12] Income eligibility is capped at 165% of Federal Poverty Level (FPL). Ohio Families participating in Head Start–child care collaborations may remain eligible at higher incomes and are assessed higher copayment amounts.

[13] In Oklahoma, a family's contribution also is determined based on number of children in care. For example, at monthly income levels above $1,936.00, the family pays the full cost of care for the first child, plus a copay for a second child that varies with income; at monthly income levels above $2,377.00, the family pays the full cost of care for the second child also, plus a copay amount for a third child that varies with income. For families of five or fewer members, at monthly income levels of $2,919.00, copays phase out and families pay the full cost of care for all children in care.

[14] Although the Puerto Rico copayment table includes a lower sliding fee amount of $36.00/month, families below 50% of SMI (1994) are not required to pay the family fee.

[15] CCDF Plan did not specify maximum monthly income at which the maximum required fee applies.

[16] In Virginia, there is a minimum fee of $25 per month for fee-system families with income of at least $250.00 per month.

[17] West Virginia reported that it capped intake at 150% of FPL.

[18] The West Virginia sliding fee scale included in its CCDF Plan did not include information on the frequency with which the copay is paid (daily, weekly, or monthly).

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Child Care Bureau

State Center-Based Care Reimbursement Rate Ceilings
Largest Urban Areas, 2003[1]

A CHILD CARE AND DEVELOPMENT FUND (CCDF) DATA SUMMARY

State/ Territory	Infant Age Range	Infant Rate	Toddler Age Range	Toddler Rate	Preschool Age Range	Pre-School Rate	School-Age Defined	School-Age Rate	Rate Area
Alabama	Infant/ Toddler	$105.00/ week	Infant/ Toddler	$105.00/ week	Preschool	$99.00/ week	School	$83.00/ week	Rates vary by region. Rates for Birmingham given.
Alaska	0 to 18 months	$1035.00/ month	19 thru 36 months	$983.00/ month	37 mos. thru 6 years	$880.00/ month	7 thru 12 years	$859.00/ month	Rates vary by area. Rates for Anch/Mat-Su given.
Arizona	Birth < 1 year	$29.00/ day	1 year < 3 years	$25.58/ day	3 years < 6 years	$23.20/ day	6 years < 13 years	$22.00/ day	Rates vary by district. Rates for District 1 given.
Arkansas	Infant	$18.00/ day	Toddler	$17.00/ day	Daycare	$17.00/ day	School-age	$15.20/ day	Rates vary by county. Rates for Pulaski County given.
California	Under 2 years	$37.00/ day	2 - 5 years	$27.59/ day	2 - 5 years	$27.59/ day	6 years +	$25.00/ day	Rates vary by county. Rates for Los Angeles County given.
Colorado	Under 2 years	$33.00/ day	2 years and older	$28.00/ day	2 years and older	$28.00/ day	2 years and older	$28.00/ day	Rates vary by county/ groups of counties. Rates for Denver Metro Counties given.
Connecticut	Infant/ Toddler	$171.00/ week	Infant/ Toddler	$171.00/ week	Preschool	$135.00/ week	School-age	$122.00/ week	Rates vary by region. Rates for Eastern region given.
Delaware	0 - 1 year	$115.50/ week	1 - 2 year	$101.20/ week	2 to 5 years	$86.25/ day	6 and over	$81.40/ week	Rates vary by county. Rates for New Castle County given.

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State/ Territory	Infant Age Range	Infant Rate	Toddler Age Range	Toddler Rate	Preschool Age Range	Pre-School Rate	School-Age Defined	School-Age Rate	Rate Area
District of Columbia	Infant	$31.10/ day	Toddler	$31.10/ day	Preschool	$23.55/ day	School-age Before And After	$19.85/ day	Rates are District-wide, but vary by tier level. Rates for Bronze-tiered centers given.
Florida	0 - 12 months	$120.00/ week	13 - 23 months	$110.00/ week	36 - 47 months[2]	$90.00/ week	School-age Summer	$62.00/ week	Rates vary by local school readiness coalition area. Rates for Duval School Readiness Coalition given.
Georgia	6 weeks - 12 months	$105.00/ week	13 - 36 months	$95.00/ week	3 - 5 years	$80.00/ week	Before & After School[3]	$55.00/ week	Rates vary by zone. Rates for Zone 1 given.
Hawaii	All ages	$425.00/ month	All ages	$425.00/ month	All ages	$425.00/ month	Before School/ After School	$60.00/ month $80.00/ month	Rates are Statewide.
Idaho	0 - 12 months	$522.00/ month	13 - 30 months	$453.00/ month	31 - 60 months	$396.00/ month	61 - 72 months/ 73+ months	$363.00/ month $345.00/ month	Rates vary by region. Rates for Region I given.
Illinois	Under 2 ½ years	$33.77/ day	2½ and older	$24.34/ day	2½ and older	$24.34/ day	School-age – Day	$12.17/ day	Rates vary by groups of counties. Rates for Group IA Counties given.

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State/ Territory	Infant Age Range	Infant Rate	Toddler Age Range	Toddler Rate	Preschool Age Range	Pre-School Rate	School-Age Defined	School-Age Rate	Rate Area
Indiana	Infants	$36.00/ day	Toddler	$35.00/ day	3 - 4 years/ 5 years[4]	$33.00/ day	School-age Before/ After[3]	$32.00/ day	Rates vary by county. Rates for Marion County used.
Iowa	2 weeks - 2 years	$12.45/ half-day	2 weeks - 2 years	$12.45/ half-day	2 years to school-age	$10.50/ half-day	Full- or half-day classes, including Kinder-garten	$9.00/ half-day	Rates are Statewide.
Kansas	0 - 12 months	$4.48/ hour	13 - 30 months	$3.85/ hour	31 months - 5 years	$3.12/ hour	6 years or more	$2.98/ hour	Rates vary by urban, near urban, and rural groups of counties. Rates for Group #1 counties (urban) given.
Kentucky	Infant/ Toddler	$23.00/ day	Infant/ Toddler	$23.00/ day	Preschool	$20.00/ day	School-age	$19.00/ day	Rates vary by region and urban/non-urban area. Urban rates for Central Region given.
Louisiana	All ages	$15.00/ day	All ages	$15.00/ day	All ages	$15.00/ day	All ages	$15.00/ day	Rates are Statewide.

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State/ Territory	Infant Age Range	Infant Rate	Toddler Age Range	Toddler Rate	Preschool Age Range	Pre-School Rate	School-Age Defined	School-Age Rate	Rate Area
Maine	Infant	$168.00/ week	Toddler	$168.00/ week	Preschool	$150.00/ week	School-age - Summer School-age – Before/ After School	$133.00/ week $85.00/ week	Rates vary by county. Rates for Cumberland given.
Maryland	Infant	$771.00/ month	Regular	$433.00/ month	Regular	$433.00/ month	Regular	$433.00/ month	Rates vary by region. Rates for Region BC (Baltimore City) given.
Massachusetts	Infant	$46.50/ day	Toddler	$41.50/ day	Preschool	$31.50/ day	School-age Blended	$18.50/ day	Rates vary by region and tier levels. Rates for Region 4, Tier 1 given.
Michigan	0 - 2½ years	$2.85/ hour	2½ years+	$2.25/ hour	2½ years+	$2.25/ hour	2½ years+	$2.25/ hour	Rates vary by Shelter Areas. Rates for Shelter Area IV given.
Minnesota	Infant	$82.00/ day	Toddler	$61.00/ day	Preschool	$55.00/ day	School-age	$52.00/ day	Rates vary by regional groups of counties. Rates for Hennepin County given.

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State/ Territory	Infant Age Range	Infant Rate	Toddler Age Range	Toddler Rate	Preschool Age Range	Pre-School Rate	School-Age Defined	School-Age Rate	Rate Area
Mississippi	Birth to 12 months	$84.00/ week	13 - 36 months	$80.00/ week	3 - 5 years	$77.00/ week	School-age - Summer (5 - 13 years)	$76.00/ week	Rates are Statewide, but vary by tiered quality level. Rates for Tier 1 given.
Missouri	Infant	$25.75/ day	Infant[5]	$25.75/ day	Preschool	$15.30/ day	School-age	$15.00/ day	Rates for infant care vary by Metro, Sub-Metro, and "Rest of State"; rates for preschool and school-age vary by groups of counties. Rates given are for St. Louis County.
Montana	Infant	$22.00/ day	Age 2 +	$17.25/ day	Age 2 +	$17.25/ day	Age 2 +	$17.25/ day	Rates vary by resource & referral district. Rates for Billings District given.
Nebraska	Infant	$25.00/ day	Toddler	$21.00/ day	Preschool	$21.00/ day	School-age	$21.00/ day	Rates vary by groups of counties; for accredited care, rates are Statewide. Rates for unaccredited care in Douglas/Sarpy counties given.
Nevada	0 - 12 months	$31.00/ day	13 - 36 months	$32.00/ day	37 - 71 months	$30.00/ day	72 months and above	$26.00/ day	Rates vary by two counties and rural areas. Rates for Clark County given.

Compiled from State Child Care and Development Fund Plans, FFY 2004-2005, effective October 1, 2003.
Many CCDF State Plans are available online and can be accessed from http://nccic.org/pubs/stateplan/app-urls.html.
For more information please contact NCCIC, 243 Church Street NW, 2nd Floor, Vienna, VA 22180
Phone: (800) 616-2242; Fax: (800) 716-2242; TTY: (800) 516-2242; E-mail: info@nccic.org; Web site: http://nccic.org.

State/ Territory	Infant Age Range	Infant Rate	Toddler Age Range	Toddler Rate	Preschool Age Range	Pre-School Rate	School-Age Defined	School-Age Rate	Rate Area
New Hampshire	Under Age 3	$28.90/ day	Under Age 3	$28.90/ day	Age 3 or over	$24.40/ day	Age 3 or over	$24.40/ day	Rates are Statewide, but vary by program step level. Rates given for contract/licensed care, for Step 1 Income Limit (TANF Financial Assistance Recipients Only).
New Jersey	0 up to 2½ years	$147.00/ week	2 up to 2½ yrs	$147.00/ week	2½ up to 5 years	$121.40/ week	5 - 13 years	$121.40/ week	Rates are Statewide, but may vary by assistance group; rates for care provided participants in the Work First New Jersey and transitional child care programs in nonaccredited, licensed centers given.
New Mexico	Infant	$467.84/ month	Toddler	$417.19/ month	Preschool	$386.48/ month	School-age	$337.11/ month	Rates vary by metro and rural areas. Metro rates given.
New York	Under 1½ years	$67.00/ day	1½ - 2 years	$64.00/ day	3 - 5 years	$45.00/ day	6 - 12 years	$44.00/ day	Rates vary by groups of counties. Rate for Group E counties (Bronx, Kings, New York, Queens, Richmond) given.

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State/ Territory	Infant Age Range	Infant Rate	Toddler Age Range	Toddler Rate	Preschool Age Range	Pre-School Rate	School-Age Defined	School-Age Rate	Rate Area
North Carolina	Infant/ Toddler	$536.00/ month	2 year olds	$490.00/ month	3-5 year old	$477.00/ month	School-age	$423.00/ month	Rates vary by county and tiered quality level. Rates for 1-star centers in Mecklenburg County given.
North Dakota	Birth up to 2 years	$115.00/ week	2 years	$110.00/ week	3 - 13 years	$100.00/ week	3 to 13 years	$100.00/ week	Rates are Statewide.
Ohio	Infant	$140.00/ week	Toddler	$125.00/ week	Preschool	$113.00/ week	School-age	$100.00/ week	Rates vary by county. Rate for Cuyahoga County given.
Oklahoma	0 - 12 months	$15.00/ day	25 - 48 months	$13.00/ day	49 - 72 months	$13.00/ day	73 months - 13 years	$11.00/ day	Rates vary by geographic area and tiered quality level. Daily rates for centers in One Star Metro Area (includes Oklahoma County) given.
Oregon	Birth thru 12 months	$525.00/ month	1 year thru 30 months	$509.00/ month	31 months - 5 years	$372.00/ month	6 years and older	$372.00/ month	Rates vary by groups of zip codes. Rates for Group Area A given.
Pennsylvania	Infant	$34.40/ day	Young Toddler Old Toddler	$32.50/ day $30.40/ day	Preschool	$28.00/ day	Young School-age Old School-age	$26.00/ day $26.00/ day	Rates vary by county. Rates for Bucks County given.
Puerto Rico	Infant/ Toddler	$249.00/ month	Infant/ Toddler	$249.00/ month	Preschool	$243.00/ month	School-age	$147.00/ month	Rates are Commonwealth-wide

Compiled from State Child Care and Development Fund Plans, FFY 2004-2005, effective October 1, 2003.
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State/ Territory	Infant Age Range	Infant Rate	Toddler Age Range	Toddler Rate	Preschool Age Range	Pre-School Rate	School-Age Defined	School-Age Rate	Rate Area
Rhode Island	1 week up to 3 years	$172.50/ week	1 week up to 3 years	$172.50/ week	3 years up to entry into 1st Grade	$140.00/ week	Entry to 1st Grade up to 13 years	$125.00/ week	Rates are Statewide.
South Carolina	0 - 2 years	$93.00/ week	0 - 2 years	$93.00/ week	3 - 5 years	$83.00/ week	6 - 12 years	$78.00/ week	Rates vary by urban and rural areas, and whether the center is licensed-only, "enhanced," or accredited. Licensed center rates for urban areas given.
South Dakota	Infants up to Age 3	$2.50/ hour	Infants up to Age 3	$2.50/ hour	3 years and older	$2.15/ hour	3 years and older	$2.15/ hour	Rates vary by urban and rural areas. Rates for urban areas given.
Tennessee	Under Age 2	$105.00/ week	Under Age 2	$105.00/ week	Preschool	$90.00/ week	School-Age In School-Age Out	$50.00/ week $75.00/ week	Rates vary by Top 17 Counties (highest average populations and incomes) and 78 other counties, as well as by tiered quality level. State rate for Top 17 Counties given.
Texas[6]									
Utah	0 to < 24 months	$3.87/ hour	2 & 3 years	$3.21/ hour	4 & 5 years	$3.00/ hour	6 < 13 years	$2.71/ hour	Rates are Statewide.
Vermont	Under 3	$23.42/ day	Under 3	$23.42/ day	3 +	$20.81/ day	3 +	$20.81/ day	Rates are Statewide.

Compiled from State Child Care and Development Fund Plans, FFY 2004-2005, effective October 1, 2003.
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State/ Territory	Infant Age Range	Infant Rate	Toddler Age Range	Toddler Rate	Preschool Age Range	Pre-School Rate	School-Age Defined	School-Age Rate	Rate Area
Virginia	Infant	$190.00/ week	Toddler	$185.00/ week	Preschool	$161.00/ week	School-age	$148.00/ week	Rates vary by regions and also by county. Rates for Fairfax Co/City given.
Washington	0 - 11 months	$37.82/ day	12 - 29 months	$31.59/ day	30 months - 5 years	$26.50/ day	5 - 12 years	$23.86/ day	Rates vary by region. Rates for Region IV given.
West Virginia	< 24 months	$24.00/ day	< 24 months	$24.00/ day	24 months and older	$18.00/ day	24 months and older	$18.00/ day	Rates are Statewide, but vary by tier quality level. Rates for base level given.
Wisconsin	0 - 2	$7.17/ hour	2 - 3 years	$6.17/ hour	4 - 5 years	$5.50/ hour	6 +	$5.33/ hour	Rates vary by county. Rates for Milwaukee County given.
Wyoming	0 - 23 months	$3.00/ hour	2 - 3 years	$2.95/ hour	4 - 5 years	$2.43/ hour	6 - 12 years	$2.35/ hour	Rates are Statewide.

Sources: Information compiled from State CCDF Plans, FFY 2004-2005, effective October 1, 2003.

Notes:

[1] Rate information presented here is based on States' responses to Section 3.2 of the FFY 2004-2005 CCDF Plan as well as States' subsidy rate tables included as attachments to the CCDF Plan. These rates are not necessarily the highest rates paid in the State, but are the rates prevailing in the largest urban area in each State. For some States, specific age ranges were not defined in the rate schedule submitted with their CCDF Plan. In States with tiered reimbursement systems, which pay higher rates for higher levels of quality, the base rate for licensed child care centers is given. The actual reimbursement amount is a function not only of the amount of care provided, but also the family's share of fees (copayment).

[2] In Florida, Duval County has three age ranges between 24 and 59 months.

[3] Georgia has two additional after-school rates: part-time (per day) or occasional (per week) care, the latter of which is paid for teacher workdays, snow days, and holidays/breaks, and is capped at $16.00 per week; and full-time care (per week), usually paid for full-day summer case, set at $80.00 per week.

[4] Indiana has two "preschool" age ranges, 3–4 years and 5 years, both with the same rate in Marion County. Indiana also has separate rates for Kindergarten ($33.00/day) and for "School-age/All Other" ($32.00/day).

[5] Missouri does not have a separate age range for Toddlers and the Lead Agency did not report age ranges in its CCDF Plan.

[6] An approved FFY 2004-2005 rate schedule for Texas was not available.

Compiled from State Child Care and Development Fund Plans, FFY 2004-2005, effective October 1, 2003.
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Appendix H

Child Care Bureau

Trends in State Eligibility Policies

A CCDF Issue Brief **July 2004**

State CCDF Plans

This Child Care and Development Fund Issue Brief *examines State child care assistance eligibility policies as detailed in the* Child Care and Development Fund (CCDF) Plans for FFY 2004-2005 *of the 50 States, the District of Columbia, and Puerto Rico. The State CCDF Plans for FFY 2004-2005 became effective October 1, 2003, and may be amended as policies or initiatives change.*

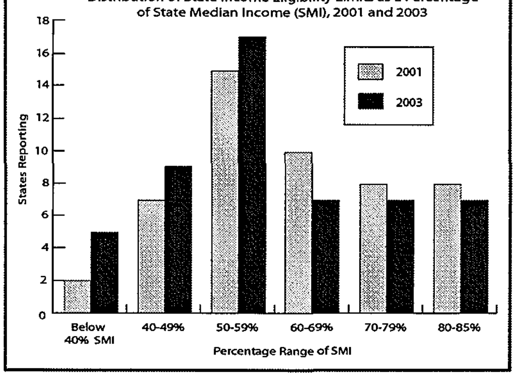
Eligibility for Child Care Assistance

The Child Care and Development Fund (CCDF) provides $4.8 billion in block grants to States, Territories, and Tribes to subsidize the cost of child care for low-income families. Eligible families must meet certain income requirements and must need child care so they can work or participate in approved training or education. Income thresholds may vary from State to State, but by statute eligibility for CCDF-funded assistance is limited to families with incomes at or below 85 percent of State Median Income (SMI).[1] Typically, eligible families pay a fee or copayment directly to the provider, who also receives a reimbursement from the State.[2]

Income Eligibility

In practice, States balance income eligibility levels, reimbursement rates, and copayments against available funding, a complex task made more challenging in many States by the tight fiscal circumstances of recent years. In 2003, State income eligibility limits ranged from 28 to 85 percent of SMI; with five States—Hawaii, Maine, Mississippi, Puerto Rico, and Texas—setting income eligibility limits at the Federal maximum.[3] Overall, States reported an average income eligibility level equivalent to 59 percent of SMI. By comparison, in 2001 five States set income thresholds at 85 percent of SMI, and the average limit was 62 percent of SMI. Between 2001 and 2003, 26 States lowered their income limits. Twelve States *increased* eligibility limits, making more families eligible for child care assistance. The relative decreases were more modest (median 6 percent of SMI) than the relative increases in income thresholds (median 9 percent of SMI).

Distribution of State Income Eligibility Limits as a Percentage of State Median Income (SMI), 2001 and 2003



FAST FACTS...

- Five States cap eligibility at the CCDF maximum income levels.
- Twenty-six States *lowered* income eligibility thresholds between 2001 and 2003.
- Twelve States *raised* income eligibility thresholds between 2001 and 2003.
- Serving TANF families and those transitioning off TANF remains a top priority among States.

Tiered Income Eligibility Thresholds

In most States, a single income eligibility threshold is used to determine whether a family may receive child care assistance. In 2003, seven States reported using a lower income limit when making eligibility determinations for families first seeking child care subsidies, and applying a higher income threshold as families' eligibility is periodically redetermined. This two-tier eligibility strategy allows families to retain child care assistance while experiencing modest success in the job market.

In Massachusetts, for example, a tiered approach is used to support self-sufficiency as well as continuity of care for families with special needs children. Families not currently receiving subsidized child care must have an income at or below 50 percent of the SMI in order to access the subsidized child care system. Once it has a subsidy, a family will remain eligible until their income reaches 85 percent of SMI. For families with a child with a documented disability, the initial income eligibility level is 85 percent of SMI. In addition, a family that has a child with a documented disability who is in child care is eligible for subsidized care for any other children at the higher income eligibility limits.

Tiered Income Eligibility Thresholds as a Percentage of Federal Poverty Level (FPL) or State Median Income (SMI)*

State	Initial Income Limit		Ongoing Income Limit	
	% of SMI	% of FPL	% of SMI	% of FPL
Florida	49%	150%	66%	200%
Kentucky	50%	150%	55%	165%
Massachusetts	50%	190%	85%	323%
Minnesota	44%	175%	63%	250%
Montana	46%	125%	56%	150%
West Virginia	51%	150%	63%	185%
Wisconsin	51%	185%	56%	200%

Source: Compiled from State Child Care and Development Fund Plans, FFY 2004-2005.

* States may set income limits as a percentage of FPL, but use SMI when submitting CCDF Plans. In 2003, the FPL for the 48 contiguous States and the District of Columbia was $15,260. Most States used 2003 FPL figures; Montana used the 2002 FPL. Most States reported 2003 or 2004 SMI; Massachusetts used 2000 SMI. Nebraska applies a higher income threshold for families in its Transitional Child Care program, but does not have a general two-tiered eligibility limit.

Special Eligibility Considerations

Many States establish special eligibility considerations to assure access to child care services for targeted populations such as children receiving protective services, teenagers with physical or mental disabilities, children under court supervision, and children in foster care. In general, more States implemented such policies, but the increase from 2001 to 2003 was modest. For example, in 2003 19 States (compared to 15 in 2001) reported choosing to provide child care assistance to children in foster care whose foster parent was not employed or participating in an approved training or education program. The only decrease—again modest—came in the number of States that reported making respite child care available for children in protective services, which fell from 22 in 2001 to 18 in 2003.

Service Priorities

In addition to the Federal requirement that all States give priority to families with "very low incomes" (as defined by the State) and children with special needs, States have defined multiple service priorities that encompass other groups of children and families as well. These priorities matter most when the demand for child care assistance exceeds funding, and they can be a means for States to implement waiting lists. In 18 States, for example, families receiving Temporary Assistance for Needy Families (TANF) and/or transitioning off TANF have *first* priority for child care assistance, down from 24 States in 2001. Another 15 States identified children with special needs and/or children from "very low income" families as their *first* service priority. Two States use continuity of care as the first priority, assuring that children already receiving subsidized care or a new child of a participating family receive care without interruption.

CCDF Plans indicate that TANF families in 24 States are guaranteed child care services, unchanged since 2001. Families transitioning off TANF are guaranteed child care services in 15 States; however, in 12 States, transitional families' access to child care subsidies is subject to a time limit.

Conclusion

While half of the States reported lowering income caps, nearly a quarter *raised* those thresholds. States continue to set service priorities and have begun to experiment with tiered eligibility limits that together target support to families as they leave welfare and succeed in the job market. ■

Endnotes

[1] Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), Pub. L. No. 104-193, section 658P. The CCDF Final Rule, 45 CFR Parts 98 and 99, was promulgated in the *Federal Register*, July 24, 1998; §98.20 addresses eligibility.

[2] "State Child Care Policies: Trends in Rates Ceilings and Family Fees" (July 2004), an NCCIC Issue Brief, by Dave Edie and Eric Karolak, available online at *http://nccic.org/pubs/issuebriefs/trendsfamfees.html.* Additional information regarding CCDF Plans is available at *http://nccic.org/pubs/stateplan/stateplan-intro.html.*

[3] Consistent with prior year analyses, only data from the 50 States, Puerto Rico, and the District of Columbia are examined here. Most States reported income limits using 2003 or 2004 SMI data; however, 14 States used SMI data ranging from 1994 to 2002. A 50-State data summary is available online at *http://nccic.org/pubs/index.html.*

About this Brief

This **CCDF Issue Brief** *was developed at the direction of the Child Care Bureau, Administration for Children and Families, U.S. Department of Health and Human Services, to meet the information needs of State Child Care Administrators. The* Brief *was prepared for the Child Care Bureau by Eric Karolak, National Child Care Information Center, through contract #233-01-0011 with Collins Management Consulting, Inc.*

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U.S. Department of Health and Human Services
Administration for Children and Families
Administration on Children, Youth and Families

Appendix I

Interview for CCAP cost study

Nursing Homes
Bob Held
May 21, 2004

Highlights for CCAP cost study
The nursing home payment proposal directly addresses the concern within CCAP that program payments are not tied to quality outcomes. This concern is two-fold. The first issue is that the measures used as indicators of quality might not actually denote the best outcomes. The second concern is that paying based on providers' charges means that in some instances CCAP might be paying more for low-quality care and less for high-quality care. There are no incentives within CCAP to provide quality care, particularly quality care at a low cost.

Implementing a similar proposal in the Child Care Assistance Program would require implementation of quality indicators; implementation of measures, analysis of quality data and assignment of providers to quality tiers; and development of a rate structure, including the matrix for payments above or below the target price. In the past accreditation/credentialling was used as an indicator of quality inputs for the Child Care Assistance Program. These providers were paid at a slightly higher rate. This policy was repealed by the 2003 Legislature. While some of the things that accreditation and credentialling measure may be included in a ranking system as indicators of child care quality, the bulk of the points would likely be based on actual outcomes, i.e. the school readiness of children in the care of a certain provider. This would require implementation of an assessment tool.

While the concern about purchasing quality care exists in both of these programs, the market in which care is purchased differs significantly. There are approximately 420 certified and/or licensed nursing homes in Minnesota. In child care, there are approximately 14,500 licensed providers; CCAP also pays for care in legal non-licensed homes. The number of child care providers makes assessing their quality a more formidable task. The portion of the market controlled by the respective programs is also very different. Medical Assistance (MA) policy pays for 63 percent of the nursing home market. Most providers cannot afford to turn away MA clients. A 2001 report identified that four percent of families seeking child care access assistance. Child care providers can choose not to accept child care assistance families, and it is likely that in areas with a significant number of non-subsidized families, rate policy might increase the number of providers who do not accept subsidy families. It is likely that the lack of inflation adjustment in this proposal is one policy that would eventually limit access.

Rates

Background

The Department of Human Services sets nursing home rates for people on MA. Minnesota law requires rate equalization, which means that a facility cannot charge more to a private pay client than to an MA client. Approximately 63 percent of clients are paid through MA, 27 percent are private pay, eight percent are Medicare and three percent have other types of coverage (long-term care insurance, VA, or HMO). Therefore, in setting the MA rate, the state sets the rate for 90 percent of the market.

There are 420 MA certified and/or licensed nursing homes in Minnesota, with a total of 38,972 beds. The average statewide occupancy for nursing homes is 94.2 percent. The monthly average number of MA recipients served during FY03 was 23,773. The state spends approximately $440 million of state funds on nursing homes yearly.

History

Prior to 1975, counties negotiated rates with nursing homes. In 1975, Rule 49 was promulgated which established a cost-based system for nursing home rates. Retroactive adjustments were allowed. In 1985, Rule 50 was promulgated. This was also a cost-based system, but was entirely prospective. There was not a direct tie between payment and quality of services. Legislative changes following promulgation of Rule 50 weakened the cost-based system that it had established. In the late 1980s, DHS conducted appraisals on all nursing homes in order to base the property-driven portion of the payment on the value. The nursing home industry did not support this initiative and it did not survive. In 1995 the Alternative Payment System (APS) was developed. This was a voluntary, contract-based reimbursement system that nursing homes could choose instead of payment under Rule 50. Nursing homes no longer had to report costs, and rate adjustments were based on the Consumer Price Index (CPI) or other adjustments passed by the Legislature. In May 1996, nursing homes started to move into APS and after several years 75 percent of nursing homes were being paid under this system. Nursing homes had to submit a proposal to DHS to be paid under APS. In 1999, the nursing home industry made the case to the Legislature that a staffing crisis existed. The legislature approved increases in compensation for current positions. Nursing homes had to submit a plan to DHS in order to access the additional funds. The only way to give nursing homes paid under Rule 50 this increase was to put them on an inflationary basis.

Operating costs and property costs are handled separately in payments to nursing homes. As a result of the above policies, all nursing homes have an essentially inflation-based model for rates tied to operating costs. Rule 50 facilities still have a cost-based system for rates tied to property, while APS facilities have an inflation-based system. These inflation-based models can be described as rate-on-rate models. For example, the rate on July 1, 2004, will be x percent of the rate on June 30, 2004.

Proposal

The department was directed by the Legislature to propose a system to replace the current nursing home reimbursement system. The Legislature directed that the new system must:

- Provide incentives to enhance quality of life and quality of care
- Recognize cost differences in the care of different types of populations
- Establish rates that are sufficient without being excessive
- Be affordable for the state and private-pay residents
- Be sensitive to changing conditions in the long-term care environment
- Avoid creating access problems related to insufficient funding
- Allow providers maximum flexibility in their business operations
- Recognize the need for capital investment to improve physical plants
- Provide incentives for the development and use of private rooms.

The result is a proposal for a value-based reimbursement system for nursing homes. The proposal covers four types of costs: direct care, support services, external fixed and property. Direct care and support services are treated separately, but use a similar methodology.

Operating costs (direct care and support services)

The differences in operating cost rates are a function of historical differences in rates without a direct connection to cost or quality. The department has found a random relationship between cost and quality. DHS is proposing a new model of payment of operating costs that is a hybrid of cost, price and quality factors. It intends to reward quality and efficiency.

Quality: Nursing home data is collected on seven measures of quality: nursing hours per resident day, turnover in nursing staff, retention, use of nursing pools (temporary staff agencies), percentage of beds in single bed rooms, national quality indicators, and results from the certification survey which lists deficiencies and their scope and severity. Facilities are assigned a quality score of 0-100. This score and underlying details will be publicly disclosed and posted on the department's web site. All nursing homes are then assigned to a quality tier from one to ten. Most facilities score in the range of 40-69. There are currently no facilities in tiers 1,2,3 or 10.

Cost information: DHS collects cost information from all nursing homes in four areas: direct care, support services, property and external fixed costs. DHS uses costs data from all nursing homes to set the target price in direct care and support services for each quality tier. The target price is the amount to which all nursing homes in that quality tier are compared. Higher tiers have higher prices. The target price for the lowest populated tier, the fourth tier, is set using the 30th percentile of cost. The target price for the highest populated tier, the ninth tier, is set using the 70th percentile. A straight line is drawn between the 30th and 70th percentile to determine the target prices for the other tiers.

The facility's direct care service rate is the lesser of the actual cost, or the target price, and a portion of the difference based on their level of quality and efficiency. The goal in paying a portion of the differential is to support efficiency and quality. Higher quality tiers receive higher target prices and a larger portion of the difference between actual costs and the target price. At the highest quality, nursing homes may be paid a limited amount above their costs.

Adjustments are made for geographic differences and differences in acuity of resident needs. Geographical differences in cost are accounted for by identifying Metropolitan Statistical Areas (MSAs) and adjusting wage rates and property costs. Costs are case mix adjusted to reflect the level of acuity of each facility's residents. Differences in types of facilities are also recognized.

External fixed costs

Some are reimbursed based on cost-based formulas. Others are based on an allowance. For example, movable equipment is considered an external fixed cost and is reimbursed at $2/day. This allows the facility to make a business decision on whether to invest the funds (and possibly increase future quality and thus income) or to take it as an immediate profit.

Property costs

Current levels of property reimbursement are largely the result of business decisions made over many years and the change in rate setting methods. Under the proposal, property costs are based on fair rental value, rather than the cost of the property. First, a universal base property rate is assigned to all beds. This amount is then adjusted for facility specific cost factors (age, space per bed, improvements, beds/room, geography) to determine an asset value/bed. Nursing homes get a payment based on the value of their property. Rates for single and private rooms (private bathroom) are adjusted upward.

Total payment rate

The total payment rate is determined based on the sum of the four cost categories.

Other notes

The proposal is budget neutral; it does not achieve savings or increase spending. A budget neutrality factor will be applied, upon implementation, in order to determine the target prices. This will result in the same average charge per MA day under the new system as under current law.

- The proposal has a four-year phase-in.
- The model does not include automatic inflation adjustments.
- The commissioner may negotiate higher rates with up to ten facilities for highly specialized programs.
- The balance between expenditures on operating and property costs is continued at the current proportion.
- MA pays 60 percent of the rate for a bed hold for a maximum of 18 days, when a resident is hospitalized, provided that the client is expected to return to the facility. MA also pays 20 percent above the rate for the first thirty days to allow for the higher level of care required during this transition.

- Industry is intrigued by proposal, but does not support redistribution. Industry representatives claim that currently a market-driven death of nursing homes is occurring.
- If a nursing home resident has any income, it goes toward nursing home costs (less the personal needs allowance of approximately $70.)

Other possible contacts

Jim Varpness and Shirley York (Aging and Adult Services) – self-directed care
Pam Parker – rate setting in health plans.

Appendix J Copayment Schedules SFY 2005

Two Person Household			Three Person Household		
Federal Poverty Guidelines		$12,490	Federal Poverty Guidelines		$15,670
175% of FPG (Entrance Limit)		$21,858	175% of FPG (Entrance Limit)		$27,423
Gross Income Range		**Monthly Copayment**	**Gross Income Range**		**Monthly Copayment**
$0	$9,367	$-	$0	$11,752	$-
$9,368	$12,489	$10	$11,753	$15,669	$10
$12,490	$13,114	$42	$15,670	$16,453	$53
$13,115	$13,738	$44	$16,454	$17,236	$55
$13,739	$14,363	$46	$17,237	$18,020	$58
$14,364	$14,987	$48	$18,021	$18,803	$60
$14,988	$15,612	$56	$18,804	$19,587	$70
$15,613	$17,485	$63	$19,588	$21,937	$78
$17,486	$18,110	$71	$21,938	$22,721	$90
$18,111	$18,734	$74	$22,722	$23,504	$93
$18,735	$19,359	$76	$23,505	$24,288	$96
$19,360	$19,983	$94	$24,289	$25,071	$118
$19,984	$20,608	$97	$25,072	$25,855	$122
$20,609	$21,232	$116	$25,856	$26,638	$146
$21,233	$21,857	$127	$26,639	$27,422	$160
$21,858	$22,481	$139	$27,423	$28,205	$175
$22,482	$23,106	$160	$28,206	$28,989	$201
$23,107	$23,730	$173	$28,990	$29,772	$217
$23,731	$24,355	$187	$29,773	$30,556	$234
$24,356	$24,979	$209	$30,557	$31,339	$263
$24,980	$26,228	$268	$31,340	$32,906	$336
$26,229	$28,102	$377	$32,907	$35,257	$473
$28,103	$28,726	$411	$35,258	$36,040	$515
$28,727	$29,351	$471	$36,041	$36,824	$591
$29,352	$29,975	$494	$36,825	$37,607	$620
$29,976	$30,600	$544	$37,608	$38,391	$683
$30,601	$31,224	$572	$38,392	$39,174	$718
$31,225		**Ineligible**	$39,175		**Ineligible**

Appendix J Copayment Schedules SFY 2005 *(continued)*

Four Person Household			Five Person Household		
Federal Poverty Guidelines		$18,850	Federal Poverty Guidelines		$22,030
175% of FPG (Entrance Limit)		$32,988	175% of FPG (Entrance Limit)		$38,553
Gross Income Range		**Monthly Copayment**	**Gross Income Range**		**Monthly Copayment**
$0	$14,137	$-	$0	$16,522	$-
$14,138	$18,849	$10	$16,523	$22,029	$10
$18,850	$19,792	$63	$22,030	$23,131	$74
$19,793	$20,734	$67	$23,132	$24,232	$78
$20,735	$21,677	$70	$24,233	$25,334	$81
$21,678	$22,619	$73	$25,335	$26,435	$85
$22,620	$23,562	$84	$26,436	$27,537	$98
$23,563	$26,389	$94	$27,538	$30,841	$110
$26,390	$27,332	$108	$30,842	$31,943	$126
$27,333	$28,274	$111	$31,944	$33,044	$130
$28,275	$29,217	$115	$33,045	$34,146	$135
$29,218	$30,159	$142	$34,147	$35,247	$166
$30,160	$31,102	$146	$35,248	$36,349	$171
$31,103	$32,044	$175	$36,350	$37,450	$205
$32,045	$32,987	$192	$37,451	$38,552	$225
$32,988	$33,929	$210	$38,553	$39,653	$246
$33,930	$34,872	$241	$39,654	$40,755	$282
$34,873	$35,814	$261	$40,756	$41,856	$305
$35,815	$36,757	$281	$41,857	$42,958	$329
$36,758	$37,699	$316	$42,959	$44,059	$369
$37,700	$39,584	$404	$44,060	$46,262	$472
$39,585	$42,412	$569	$46,263	$49,567	$665
$42,413	$43,354	$620	$49,568	$50,668	$724
$43,355	$44,297	$711	$50,669	$51,770	$830
$44,298	$45,239	$746	$51,771	$52,871	$871
$45,240	$46,182	$822	$52,872	$53,973	$960
$46,183	$47,124	$864	$53,974	$55,074	$1,010
$47,125		**Ineligible**	$55,075		**Ineligible**

Appendix J Copayment Schedules SFY 2005 *(continued)*

Six Person Household			Master Schedule		
Federal Poverty Guidelines		$25,210			
175% of FPG (Entrance Limit)		$44,1188			
Gross Income Range		Monthly Copayment	Income Range		Current Copayment
$0	$18,907	$-	0%	74.99%	$-
$18,908	$25,209	$10	75%	99.99%	$10
$25,210	$26,470	$85	100.00%	104.99%	3.85%
$26,471	$27,730	$89	105.00%	109.99%	3.85%
$27,731	$28,991	$93	110.00%	114.99%	3.85%
$28,992	$30,251	$97	115.00%	119.99%	3.85%
$30,252	$31,512	$113	120.00%	124.99%	4.29%
$31,513	$35,293	$126	125.00%	139.99%	4.29%
$35,294	$36,554	$144	140.00%	144.99%	4.73%
$36,555	$37,814	$149	145.00%	149.99%	4.73%
$37,815	$39,075	$154	150.00%	154.99%	4.73%
$39,076	$40,335	$190	155.00%	159.99%	5.65%
$40,336	$41,596	$196	160.00%	164.99%	5.65%
$41,597	$42,856	$234	165.00%	169.99%	6.56%
$42,857	$44,117	$257	170.00%	174.99%	7.00%
$44,118	$45,377	$281	175.00%	179.99%	7.44%
$45,378	$46,638	$323	180.00%	184.99%	8.31%
$46,639	$47,898	$349	185.00%	189.99%	8.75%
$47,899	$49,159	$376	190.00%	194.99%	9.19%
$49,160	$50,419	$423	195.00%	199.99%	10.06%
$50,420	$52,940	$540	200.00%	209.99%	12.25%
$52,941	$56,722	$761	210.00%	224.99%	16.10%
$56,723	$57,982	$829	225.00%	229.99%	17.15%
$57,983	$59,243	$950	230.00%	234.99%	19.25%
$59,244	$60,503	$997	235.00%	239.99%	19.78%
$60,504	$61,764	$1,099	240.00%	244.99%	21.35%
$61,765	$63,024	$1,155	245.00%	249.99%	22.00%
$63,025		**Ineligible**	250.00%		**Ineligible**

Appendix K

Description of Options to Track the Effect of Implemented Strategies

1. **Monthly Average Cost Per Family**
At the end of each state fiscal year, monthly average cost per family is calculated. Staff will assess emerging trends for CCAP overall, by subprogram and by type of care.

2. **Basic Sliding Fee Waiting List**
The Basic Sliding Fee Waiting List is one measure of the amount of demand for child care subsidies at the county level, but it does not measure all demand for the program. While the department acknowledges that it is an imperfect measure of demand – it is the only measure tracked monthly.[2] This provides the opportunity to track annual cycles over a biennium. Analyzing trends in the number and type of individuals placing their names on the list may reveal trends in the financial accessibility of care. Data currently available tracks the number of families waiting by priority type. If additional data became available statewide through MEC2, additional options may include tracking these individuals by participation in other programs through the Data Warehouse.

3. **Child Care Resource and Referral Program Report**
Every six months, the child care resource and referral agencies submit data on the supply of child care at the county level. One indicator is the number of licensed providers willing to care for children in families accessing Child Care Assistance. Depending on the strategies implemented, there may be a different impact on licensed family child care homes versus licensed child care centers in different parts of the state. Baseline data will be available beginning December 2004.

4. **Family Profile**
The Family Profile is an annual statewide report that tracks trends in the ages of children in the program and the levels of income of families participating. This report could be used to determine differences in program use across income groups and across time. This information could be used to create program refinements to enhance services to that income category. The Family Profile also covers the type of care selected by sub-program. This is the information that the federal government could reference to determine if the state is systemically restricting care in any particular type of care. See reference below to the ACF 800 report that provides part of the data for the Family Profile.

5. **MFIP Reasons for Application Survey**
Several counties have volunteered to survey all families applying for MFIP to determine the reasons for application from the applicant's perspective for two months each year. This survey builds on a model from Hennepin County. Applicants are directed to check all items that apply to their situation. In the first survey, May 2004, child care costs, or need, was the fourth most common reason for application for MFIP-eligible families after lost job, needed health insurance and had baby/became pregnant. Child care costs, or need, was the number one reason for MFIP-eligible applicants with children under the age of six. In the baseline study of the MFIP Longitudinal study – child care was also ranked

fourth behind had baby/became pregnant, lost job and loss of support from spouse/partner.

This survey is designed to watch trends in the reasons why people apply for MFIP over time. Changes in the ranking of child care over time could highlight an impact of a policy change along with any changes that may be happening in the state's economic climate.

6. **Type of Care Selected**
   a. **ACF 800**
   This section of the report expands on one of the measures identified above – type of care selected. Types of care selected by CCAP families have remained fairly stable over the last four federal fiscal years. There may be the start of a trend for children in MFIP to select more legally non-licensed and fewer licensed family child care homes beginning in FFY01. Trends in type of care used by CCAP families will be analyzed in the years following implementation of cost containment policy changes. Two strands of analysis will be done: FFY99 will be used as a starting point in order to develop a long-term sense of trends and FFY03 will be used as a starting point in order to assess possible impacts of policy changes. To the extent possible this will be compared to private market choices. A table with type of care used from FFY99-03 follows.

Types of Care to Children in the Child Care Assistance Program

	All Children				
	FFY99	FFY00	FFY01	FFY02	FFY03
Registered provider	33.66%	33.52%	34.19%	36.78%	36.55%
Registered center	3.77%	3.47%	3.28%	2.77%	3.43%
Licensed provider in provider's home	31.46%	31.74%	29.45%	27.65%	28.41%
Licensed child care center	31.11%	31.27%	33.08%	32.80%	31.61%
	All Children by License Status				
Registered providers	37.43%	36.99%	37.47%	39.55%	39.98%
Licensed providers	62.57%	63.01%	62.53%	60.45%	60.02%
	BSF Children				
Registered provider	27.90%	26.70%	25.70%	27.60%	27.60%
Registered center	4.90%	4.50%	4.50%	3.90%	4.70%
Licensed provider in provider's home	36.80%	37.70%	35.30%	34.00%	35.10%
Licensed child care center	30.40%	31.10%	34.50%	34.50%	32.60%
	MFIP Children				
Registered provider	38.60%	39.50%	42.40%	45.50%	45.00%
Registered center	2.80%	2.80%	2.10%	1.80%	2.20%
Licensed provider in provider's home	26.90%	27.00%	23.90%	21.60%	22.00%
Licensed child care center	31.70%	30.70%	31.60%	31.10%	30.80%

Source: ACF 800

b. Child Care Use Study

In the Child Care Use study that gathered data in 1999 on a base sample of 2,450 randomly selected Minnesota households (most of whom did not receive child care assistance) families reported the type of child care used most often during the school year for their youngest child. The following chart summarizes the findings. These are similar to the types of child care selected by families accessing Child Care Assistance with the possible following exceptions. The use of legally non-licensed providers for MFIP children (45 percent) versus all the children in the Child Care Use study (35.8+ percent) is different to some degree but they are measuring slightly different types of care.[3] Also, the use of child care centers for all children in FFY03 is at 31.61 percent versus all children in the Child Care Use study at 23.1 percent. There were no significant differences in the use of child care by metropolitan/rural areas. The Child Care Use study is being replicated in 2004 with a targeted release date of spring 2005.

The similarity of care choices, and the choice of less expensive care when choices do differ, disputes the claim that a lack of price sensitivity leads CCAP families to pick the most expensive care.

Types of Care Selected

Type of Care	Birth - 5 Year Olds	6-14 Year Olds	Total
Home-based or informal care	31.00%	42.50%	35.80%
Family child care	38.90%	8.70%	26.20%
Center-based care	29.40%	14.40%	23.10%
Activities	0.60%	16.90%	7.40%
Self care by child	0.00%	17.40%	7.30%

Source: Child Care Use, 2001

7. **School Readiness Scores of Children in CCAP**

Recent research identifies the importance of children being ready for school across a number of domains, including cognitive and social/emotional development. Minnesota has conducted several representative statewide studies that analyzed children's readiness at kindergarten entrance. The second study replicated the findings of the first – most importantly that children enter kindergarten with a wide range of abilities when they are age-eligible for school. Both studies also identified the need for additional attention for a large number of children to the areas of language, literacy and mathematical thinking. The responsibility to improve child outcomes relies on a number of community members. While parents are children's first and most important teachers, it is important to note that the community, including child care providers, play a role in increasing these scores. This is especially true when a large investment is being made by the state in the child care arrangements for families accessing CCAP.

One study conducted by DHS examines the school readiness of children in accredited child care centers.

DHS is examining the school readiness of children in 22 accredited child care centers. Future studies could examine the school readiness of children as they move through their early experiences in child care – prior to kindergarten enrollment. It will be important to recognize that the majority of families use at least two types of child care at a time, and possibly a number of different arrangements over time. School readiness scores could be used to determine the effective combinations of different types of child care for different children.

School readiness study results cannot be used to say one type of child care is better than another – too few children are in only one type of child care over time. It is also important to recognize that family income and parent education levels play a large role in school readiness outcomes. Adequate assessments may need to be identified that could be implemented across different types of child care. Without assessments that work across different types of care, the option remains for one type of assessment to be identified and used in the appropriate type of care to track children in those settings. Once the appropriate assessment strategy is defined – a random sample of children in families accessing CCAP could be followed longitudinally to determine the school readiness levels of children, who either continued in, or at one point accessed care for CCAP. A parallel study could examine their parent's work patterns and then combine the school readiness and work pattern information to provide a more complete picture of the interactions between child and family outcomes.

8. **Length of Continuous Employment**
The length of continuous employment is related to economic stability and long-term income growth for the family-both of which support transitions out of poverty for families and school readiness for children. Current administrative data sets do not support analyzing information in this format within DHS for families participating in CCAP. Administrative data could track this information at various levels, including county and regional, after MEC² is implemented and stabilized statewide.

   There may be the ability to link this information with children's school readiness scores when both processes are stabilized.

9. **Relationship Between Maximum Rates and Percent of Providers Available at the Local Level**
Current private market data is available at the conclusion of each Rate Survey. This offers an opportunity to evaluate the existing maximum rate structure to determine the financial accessibility of child care for families at the county level by type of child care and age of child. This information could also be accessed by the federal government to determine the level of systemic access to different types of child care in different parts of the state.

   One challenge in this process is that it assumes all child care providers are geographically accessible to all CCAP families in that county. This may overestimate availability if both the family's home and the parental job(s) are at one border of the county and the child care provider is at another. Current resources do not allow for a more local analysis of the market.

Appendix L

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Appendix M

National Child Care Information Center
A service of the Child Care Bureau

NCCIC

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PAYMENT RATES for the PROVISION of CHILD CARE:
INFORMAL CARE

NCCIC's examination of State *Child Care and Development Fund (CCDF) Plans for the Period 10/01/03 to 9/30/05* revealed that fourteen States reported that informal provider rate ceilings are indexed:

Adjusted Rates for Unregulated Providers	
Arizona	The rate is set at a level of 70% of the average actual daily payment that was made to certified family child care providers.
California	In home and license exempt care is set at 90% of the family care home ceiling.
Florida	Payment to informal providers may not exceed 50% of the payment rate for family child care providers.
Maine	Rates are set for unregulated providers at 90% of family child rates.
Maryland	Rates for informal care were established at 50% of the regulated family child care rate in each region.
Minnesota	All unregulated providers are registered with the county agencies. Unregulated family based provider rates are established at 80% of licensed provider rates.
Montana	Because there is no "market" for Legally Unregistered Provider (LUP) care, LUP rates are set at 75 percent of the 2000 Family Home rate.
Nevada	Informal care rate is set at 50% to 70% of the licensed family child care provider rate.
New York	Rates for providers of legally-exempt family child care and legally exempt in-home child care are set at 70% of the rate of registered family child care providers.
North Carolina	These non-licensed homes are eligible for 50% of the one-star county market rate for home-based care or the rate the home provider charges full fee-paying parents, whichever is less. These rates also apply to in-home care.
Pennsylvania	Unregulated care payment rates are based on 65 percent of the lowest ceiling in a county. Once a provider meets health and safety requirements (including obtaining background clearances), the ceiling increases to 75 percent.
Virginia	In-home care rates are calculated using the family child care home rate for the locality as the maximum payment rate. Payment is made at the rate charged by provider as long as that rate is at least minimum wage but does not exceed the maximum reimbursable family child care rate of the locality for the same number of children.
Wisconsin	- Maximum reimbursement rates for Level 1, Regularly Certified family child care providers are set at 75 percent of the Licensed Family maximum reimbursement rates. Level 2, Provisionally Certified family child care providers are set at 50 percent of the Licensed Family maximum reimbursement rates. These percentages are established by state statute. - Maximum reimbursement rates for care provided in the child's own home for 15 or more hours per week are subject to minimum wage requirements.
Wyoming	Current rates paid to legally-exempt provider continue to meet the seventy fifth (75th) percentile for this type of care.

Source: Information compiled from the State CCDF Plans, FY 2003-2004

The National Child Care Information Center does not endorse any organization, publication, or resource.

Updated June 2004

Appendix N

Department Of Children, Families & Learning
Head Start/Child Care Development
Pre-tax Child Care Accounts
1999
(2004 Update)

I. Description

Pre-tax accounts for dependent care allow working parents with child care expenses to set aside up to $5,000 per year of their salaries in an employer-sponsored account called Dependent Care Assistance Plans (DCAPs) in IRS regulations. The funds are placed in a pre-tax account for the employee to pay child care expenses. The employee is not taxed on the income set aside for dependent care assistance, and the employer is not subject to either federal or state taxes. (Further descriptions are available in Section 129 of the Internal Revenue Code. The IRS Code sections 125 and 129, describe the qualifying types of child care.)

The employer estimates how many employees with dependent care expenses could save money through a salary reduction agreement. Since minimum wage or low income employees probably would not benefit from a salary reduction agreement, the child care tax credit should also be advertised as a tax benefit to these employees.

II. Audience

In 1999, 27 percent of a representative sample of Minnesota parent firms offer at least one kind of child care benefit to their employees according to the Employee Benefits Survey by the Department of Economic Security (September 1999). Pre-tax accounts are the most popular child care benefit with 23.76 percent of the 2,234 companies sampled offering it as a benefit.

Pre-tax accounts fall under the definition of a cafeteria plan benefit for the IRS tax code. For all cafeteria benefits to be considered pre-tax for the company and the employee, the company must ensure that no more than 25 percent of the benefits of the cafeteria plan goes to direct relatives of the owner or the highest paid individuals in the company. (Title 26, Subtitle A, Chapter 1, Subchapter B, Part III, Sec 125 & 129 of the IRS Code.)

This is a challenge in Minnesota where:

- 86.9% of firms employ less than 20 people
- 75% of firms employ less than 10 people and
- 57.2% of firms employ less than 5 people

according to the Research and Statistics Office at the Minnesota Department of Economic Security in 1999.

In 1999, the Department of Revenue (DoR) assisted CFL in identifying businesses that are more likely to offer this benefit through their database of over 120,000 entities that withhold taxes for their employees. Companies who contract out for payroll services are much more likely to offer the benefit, or be able to easily bring it in as a benefit in their company.

III. Considerations

A. Policy

Pre-tax accounts established by the federal government in 1981, were designed to compensate families for the child care costs for two children in child care ($5,000). In 1981, $5,000 was effective to cover the costs of two children in care. In Minnesota, the average cost for one preschooler in family child care, one of the least expensive types of care, is now $4,481. The $5,000 limit does not respond to inflation, market practices or family size. There have been no changes to this part of the tax code since 1981.

B. Ease of Use

CFL contacted various sized companies in 1999 who use the accounts to identify whether or not these companies felt paperwork is cumbersome. As compared with other reporting required by the IRS, the companies who hire an outside benefits consulting agency say the paperwork is minimal. CFL staff could not identify any companies who administer this type of account within their company (e.g. without using consultants).

C. Costs

Summit Benefits Group, the company that provides benefits consultation to the State of Minnesota, as well as small and medium sized company's across Minnesota, estimates that approximately 2% of a companies employees will take advantage of pre-tax accounts. With that in mind, companies need to estimate the tax savings and costs of administration.

The cost of administration involves several items. There is the establishment of the program, required advertising of it to employees, maintenance and annual reporting to the IRS. Summit reported in 1999 that it charged $750 to establish the program with materials for employees. Many companies also hired Summit to orient their employees for another $250 in 1999. Once the program is established there is a $4.60 per participant per month charge with a minimum monthly charge of $100 in 1999. There is an annual fee to prepare the Form 5500 and perform non-discrimination testing and re-enrollment of $600 in 1999. Companies can also choose to administer their program on their own and only hire Summit to set up the program and report to the IRS.

Pre-tax accounts can be implemented without implementing Medical Savings Accounts that do not offer the same types of protection to the employer. Employees are only able to take out what they put into pre-tax accounts, where employees can take up to the maximum level offered for Medical Savings Accounts, regardless of what they have put into their account.

D. Benefits to Employees

Pre-tax accounts are a pre-tax benefit. This means that the level of benefits received is based upon an employee's income. The following chart from House Research estimates the level of benefits for a single parent with two children with $5,000 in child care expenses for both children for tax year 2004. Federal tax credits include the child credit and the Earned Income Tax Credit. State tax credits includes the Working Family Credit.

AGI*	Payroll Tax Savings	Federal Income Tax Savings	State Income Tax Savings	Total Tax Savings
$20,000	$383	$306	($214)	$475
$30,000	$383	$1,721	$783	$2,887
$40,000	$383	$750	$268	$1,401
$50,000	$383	$750	$352	$1,485

***Adjusted Gross Income**
This program works in tandem with the state and federal child care tax credits. The lower your income, the more likely you are to benefit from the tax credits in place of pre-tax accounts. In the scenario above in 2004, the family at $20,000 AGI would receive more benefit from all credits $1,404 than they would from a pre-tax account ($475).

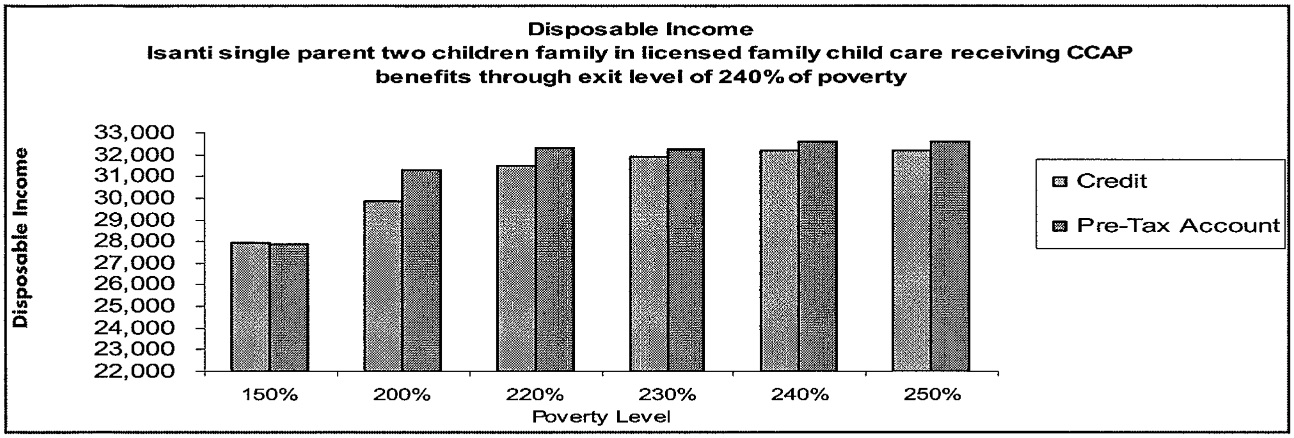
IV. Educational Plan for Employers

The Department of Revenue (DoR) assisted CFL in 2004 in working with employers on establishing pre-tax accounts. CFL is developing a flyer to educate employers on pre-tax accounts that explains the process and special considerations in establishing this particular benefit. DoR reviewed the flyer for accuracy and disseminated the flyer to over 120,000 withholding entities. The Child Care Resource and Referral Network hired an employer-relations specialist in December 1999. CFL and the CCR&R Network worked closely during 2000 to approach employers regarding pre-tax child care accounts as well as other employer/child care issues. DoR also continued to work with CFL as we continue to engage employers on supporting the child care needs of their employees.

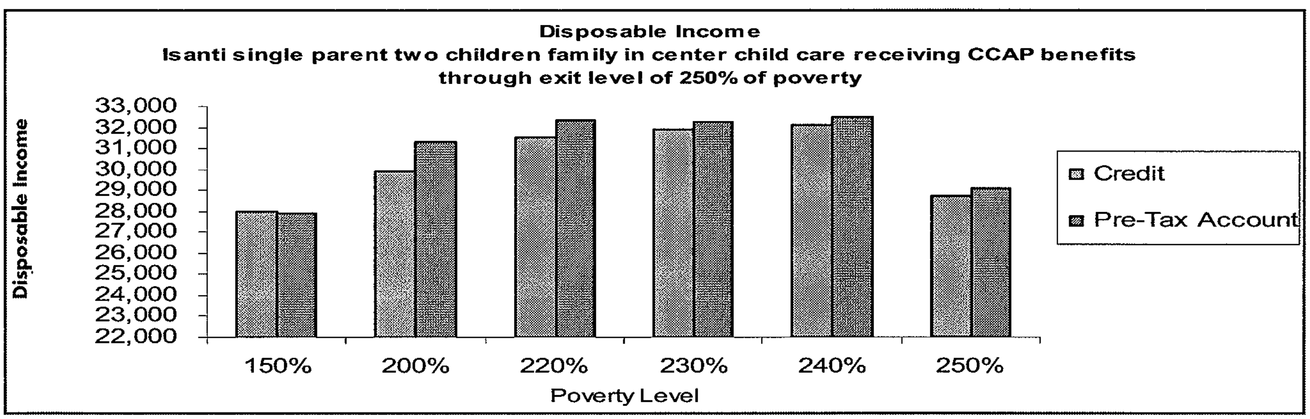
Mayo Clinic in Rochester, MN found that many of their employees were not taking advantage of pre-tax accounts even though they were offered. They developed a survey to see why employees did not access the benefit. The employees voiced that they could not handle the decreased cash flow between when the money was put into a pre-tax account and when they would be reimbursed. They were also interested in a program that could work for a broader range of child care services. Simply, they were interested in a policy that would be more responsive to their needs. Mayo Clinic responded by creating a broader network of child care support services including contracting with the local child care resource and referral agency for employee referrals, and establishing a child care assistance plan to support families who qualify for, but could not access, the limited funds of the Basic Sliding Fee program.

Appendix O Child care tax policy – disposable income graphs

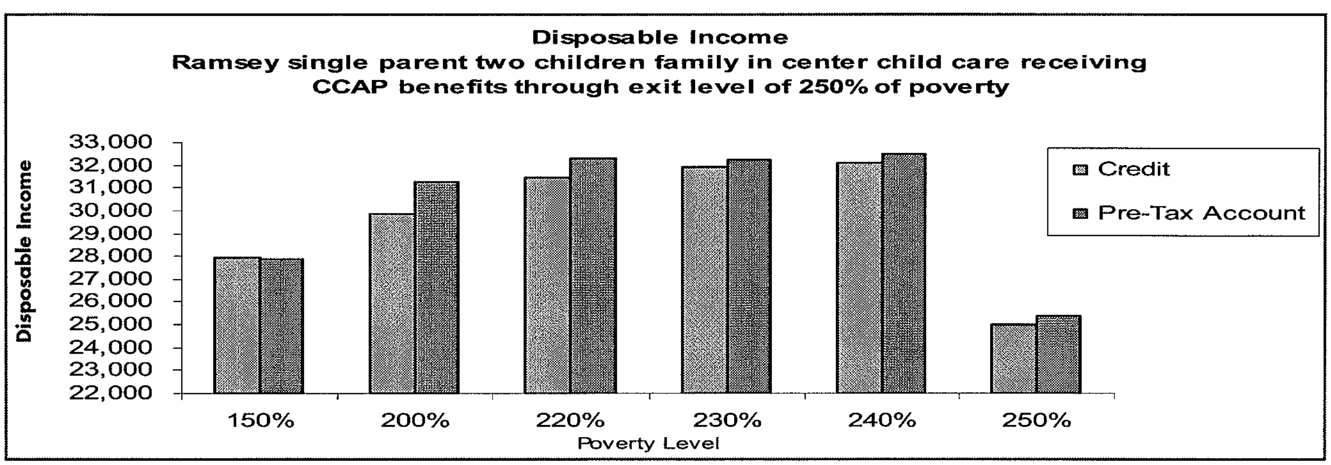
Isanti County Family In A Licensed Family Child Care



Isanti County Family In A Child Care Center



Ramsey County Family In A Child Care Center



Appendix P Summary analysis for BSF allocation formula changes

Option to change Guaranteed Floor only

Guaranteed floor—Previous allocation or 110% of expenditures over the most recent 6 months annualized, whichever is less.

Number of counties									
Ratio		**CY00**	**CY01**	**CY02**	**CY03**	**CY04**	**# of counties included in: 3 yrs**	**4 yrs**	**5 yrs**
>=100%		28	31	33	49	22	27	5	1
90-99%		15	19	13	12	9	3	0	0
	Subtotal	43	50	46	61	31	30	5	1
76-89%		33	22	20	14	15	7	1	1
<=75%		8	12	18	9	38	5	1	0
	Subtotal	41	34	38	23	53	12	2	1
	Total	84	84	84	84	84	42	7	2
Change from current law									
>=100%		16	14	24	26	19	21	5	1
90-99%		1	3	-7	-7	2	-6	-1	0
76-89%		-1	-1	-5	-12	-1	-7	-2	0
<=75%		-16	-16	-12	-7	-20	-21	-13	-3

Total allocation amounts represented by counties in each group above**											
Ratio		**CY00**	**% of Total**	**CY01**	**% of Total**	**CY02**	**% of Total**	**CY03**	**% of Total**	**CY04***	**% of Total**
>=100%		20,432,065	26%	45,583,126	51%	25,810,839	26%	26,462,939	28%	6,396,187	8%
90-99%		41,461,074	52%	15,712,782	18%	46,842,238	46%	4,333,894	5%	6,606,339	8%
	Subtotal	61,893,138	77%	61,295,908	69%	72,653,077	72%	30,796,833	33%	13,002,526	17%
76-89%		14,718,111	18%	21,715,191	24%	21,031,842	21%	51,320,739	55%	10,165,005	13%
<=75%		3,454,921	4%	5,799,258	7%	7,254,895	7%	11,400,261	12%	55,408,445	71%
	Subtotal	18,173,032	23%	27,514,449	31%	28,286,737	28%	62,721,000	67%	65,573,450	83%
	Total	80,066,171	100%	88,810,357	100%	100,939,814	100%	93,517,833	100%	78,575,976	100%
Total earnings represented by counties in each group above**											
>=100%		22,208,889	30%	50,598,894	58%	27,998,479	29%	32,726,497	37%	7,214,167	13%
90-99%		38,532,232	51%	14,688,198	17%	44,891,637	47%	4,230,655	5%	6,326,060	11%
	Subtotal	60,741,121	81%	65,287,092	75%	72,890,116	77%	36,957,152	41%	13,540,227	24%
76-89%		11,964,343	16%	18,253,789	21%	17,317,825	18%	44,495,009	50%	8,466,262	15%
<=75%		2,228,573	3%	3,751,006	4%	4,812,595	5%	7,681,196	9%	34,582,806	61%
	Subtotal	14,192,916	19%	22,004,795	25%	22,130,420	23%	52,176,205	59%	43,049,068	76%
	Total	74,934,037	100%	87,291,887	100%	95,020,536	100%	89,133,357	100%	56,589,295	100%

*Annualization based on actual earnings year-to-date through March 2004

**Total Allocation amounts and total earnings includes both direct service and admin.

NOTE: The category ratio in the left column represents level of direct service expenditures relative to direct service allocation. In reviewing this data, totals may be different due to rounding.

Appendix P Option A

Guaranteed floor—Previous allocation or 110% of expenditures over the most recent 6 months annualized, whichever is less and capping the amount in each variable funding category at average exp/family (plus admin.).

Number of counties

Ratio		CY00	CY01	CY02	CY03	CY04	# of counties included in: 3 yrs	4 yrs	5 yrs
>=100%		26	27	28	46	19	22	4	0
90-99%		13	15	16	18	13	7	1	0
	Subtotal	39	42	44	64	32	29	5	0
76-89%		38	24	21	12	16	10	2	1
<=75%		7	18	19	8	36	4	2	0
	Subtotal	45	42	40	20	52	14	4	1
	Total	84	84	84	84	84	43	9	1

Change from current law

Ratio	CY00	CY01	CY02	CY03	CY04	3 yrs	4 yrs	5 yrs
>=100%	14	10	19	23	16	16	4	0
90-99%	-1	-1	-4	-1	6	-2	0	0
76-89%	4	1	-4	-14	0	-4	-1	0
<=75%	-17	-10	-11	-8	-22	-22	-12	-3

Total allocation amounts represented by counties in each group above**

Ratio		CY00	% of Total	CY01	% of Total	CY02	% of Total	CY03	% of Total	CY04*	% of Total
>=100%		20,655,272	26%	38,934,857	44%	25,361,852	25%	23,066,752	25%	6,546,213	8%
90-99%		42,025,331	52%	13,145,041	15%	49,814,364	49%	12,049,584	13%	6,612,526	8%
	Subtotal	62,680,603	78%	52,079,898	59%	75,176,216	74%	35,116,336	38%	13,158,739	17%
76-89%		15,100,294	19%	28,623,844	32%	18,573,841	18%	48,787,359	52%	13,217,563	17%
<=75%		2,285,274	3%	8,106,615	9%	7,189,757	7%	9,614,138	10%	52,199,674	66%
	Subtotal	17,385,568	22%	36,730,459	41%	25,763,598	26%	58,401,497	62%	65,417,237	83%
	Total	80,066,171	100%	88,810,357	100%	100,939,814	100%	93,517,833	100%	78,575,976	100%

Total earnings represented by counties in each group above**

Ratio		CY00	% of Total	CY01	% of Total	CY02	% of Total	CY03	% of Total	CY04*	% of Total
>=100%		21,821,416	29%	45,280,795	52%	27,221,411	29%	28,830,448	32%	7,407,304	13%
90-99%		39,264,358	52%	12,283,221	14%	48,098,128	51%	11,647,647	13%	6,244,832	11%
	Subtotal	61,085,774	82%	57,564,016	66%	75,319,539	79%	40,478,095	45%	13,652,136	24%
76-89%		12,441,447	17%	24,388,782	28%	14,944,503	16%	42,175,564	47%	10,812,756	19%
<=75%		1,406,816	2%	5,339,089	6%	4,756,494	5%	6,479,698	7%	32,122,250	57%
	Subtotal	13,848,263	18%	29,727,871	34%	19,700,997	21%	48,655,262	55%	42,935,006	76%
	Total	74,934,037	100%	87,291,887	100%	95,020,536	100%	89,133,357	100%	56,587,142	100%

*Annualization based on actual earnings year-to-date through March 2004

**Total Allocation amounts and total earnings includes both direct service and admin.

NOTE: The category ratio in the left column represents level of direct service expenditures relative to direct service allocation. In reviewing this data, totals may be different due to rounding.

Appendix P Option B

Guaranteed floor—Previous allocation or 110% of expenditures over the most recent 6 months annualized, whichever is less and expenditures spent in previous year more than 90% to receive funds from expenditure portion of variable funding.

Number of counties									
Ratio		CY00	CY01	CY02	CY03	CY04	# of counties included in: 3 yrs	4 yrs	5 yrs
>=100%		31	39	37	56	26	38	12	2
90-99%		19	17	18	10	9	4	1	0
	Subtotal	50	56	55	66	35	42	13	2
76-89%		27	16	14	9	14	3	0	0
<=75%		7	12	15	9	35	3	1	0
	Subtotal	34	28	29	18	49	6	1	0
	Total	84	84	84	84	84	48	14	2
Change from current law									
>=100%		19	22	28	33	23	32	12	2
90-99%		5	1	-2	-9	2	-5	0	0
76-89%		-7	-7	-11	-17	-2	-11	-3	-1
<=75%		-17	-16	-15	-7	-23	-23	-13	-3

Total allocation amounts represented by counties in each group above**											
Ratio		CY00	% of Total	CY01	% of Total	CY02	% of Total	CY03	% of Total	CY04*	% of Total
>=100%		21,168,545	26%	49,630,163	56%	28,703,771	28%	27,232,683	29%	9,821,130	12%
90-99%		41,320,598	52%	7,633,612	9%	48,221,728	48%	3,427,632	4%	3,310,462	4%
	Subtotal	62,489,143	78%	57,263,775	64%	76,925,499	76%	30,660,315	33%	13,131,592	17%
76-89%		14,558,143	18%	25,047,936	28%	8,528,026	8%	51,530,772	55%	10,094,089	13%
<=75%		3,018,885	4%	6,498,646	7%	15,486,289	15%	11,326,746	12%	55,350,295	70%
	Subtotal	17,577,028	22%	31,546,582	36%	24,014,315	24%	62,857,518	67%	65,444,384	83%
	Total	80,066,171	100%	88,810,357	100%	100,939,814	100%	93,517,833	100%	78,575,976	100%
Total earnings represented by counties in each group above**											
>=100%		23,254,025	31%	54,654,116	63%	31,834,518	34%	34,853,872	39%	11,203,534	20%
90-99%		37,952,231	51%	7,293,730	8%	44,947,394	47%	3,266,629	4%	3,163,337	6%
	Subtotal	61,206,256	82%	61,947,846	71%	76,781,912	81%	38,120,501	43%	14,366,871	25%
76-89%		11,782,617	16%	21,113,079	24%	7,191,628	8%	43,331,660	49%	8,362,306	15%
<=75%		1,945,164	3%	4,230,962	5%	11,046,996	12%	7,681,196	9%	33,831,877	60%
	Subtotal	13,727,781	18%	25,344,041	29%	18,238,624	19%	51,012,856	57%	42,194,184	75%
	Total	74,934,037	100%	87,291,887	100%	95,020,536	100%	89,133,357	100%	56,561,054	100%

*Annualization based on actual earnings year-to-date through March 2004
**Total Allocation amounts and total earnings includes both direct service and admin.
NOTE: The category ratio in the left column represents level of direct service expenditures relative to direct service allocation. In reviewing this data, totals may be different due to rounding.

Appendix P Option C

Guaranteed floor—Previous allocation or 110% of expenditures over the most recent 6 months annualized, whichever is less and capping the amount in each variable funding category at average exp/family (plus admin) and expenditures spent in previous year more than 90% to receive funds from expenditure portion of variable funding.

Number of counties									
Ratio		**CY00**	**CY01**	**CY02**	**CY03**	**CY04**	**# of counties included in: 3 yrs**	**4 yrs**	**5 yrs**
>=100%		27	37	38	58	27	39	12	1
90-99%		26	16	15	10	8	6	1	0
	Subtotal	53	53	53	68	35	45	13	1
76-89%		26	18	17	9	17	4	0	0
<=75%		5	13	14	7	32	1	1	0
	Subtotal	31	31	31	16	49	5	1	0
	Total	84	84	84	84	84	50	14	1
Change from current law									
>=100%		15	20	29	35	24	33	12	1
90-99%		12	0	-5	-9	1	-3	0	0
76-89%		-8	-5	-8	-17	1	-10	-3	-1
<=75%		-19	-15	-16	-9	-26	-25	-13	-3

Total allocation amounts represented by counties in each group above**											
Ratio		**CY00**	**% of Total**	**CY01**	**% of Total**	**CY02**	**% of Total**	**CY03**	**% of Total**	**CY04***	**% of Total**
>=100%		18,671,382	23%	48,075,394	54%	29,642,496	29%	28,592,842	31%	10,714,964	14%
90-99%		46,632,593	58%	7,371,802	8%	47,594,803	47%	5,610,483	6%	2,189,283	3%
	Subtotal	65,303,975	82%	55,447,196	62%	77,237,299	77%	34,203,325	37%	12,904,247	16%
76-89%		13,247,295	17%	26,381,735	30%	9,328,097	9%	50,010,180	53%	13,225,542	17%
<=75%		1,514,902	2%	6,981,426	8%	14,374,418	14%	9,304,328	10%	52,446,187	67%
	Subtotal	14,762,196	18%	33,363,161	38%	23,702,515	23%	59,314,508	63%	65,671,729	84%
	Total	80,066,171	100%	88,810,357	100%	100,939,814	100%	93,517,833	100%	78,575,976	100%
Total earnings represented by counties in each group above**											
>=100%		20,313,927	27%	54,019,645	62%	32,811,365	35%	36,166,622	41%	12,278,193	22%
90-99%		42,980,143	57%	7,039,459	8%	44,180,971	46%	5,266,098	6%	2,079,660	4%
	Subtotal	63,294,070	84%	61,059,104	70%	76,992,336	81%	41,432,720	46%	14,357,852	25%
76-89%		10,743,027	14%	21,808,417	25%	7,852,869	8%	41,363,941	46%	10,884,554	19%
<=75%		896,940	1%	4,424,366	5%	10,175,331	11%	6,336,696	7%	31,309,629	55%
	Subtotal	11,639,967	16%	26,232,783	30%	18,028,200	19%	47,700,637	54%	42,194,184	75%
	Total	74,934,037	100%	87,291,887	100%	95,020,536	100%	89,133,357	100%	56,552,036	100%

*Annualization based on actual earnings year-to-date through March 2004
**Total Allocation amounts and total earnings includes both direct service and admin.
Information to note: one difference in the impact between options #3 and #4 is that we generally don't meet the threshold for option #3 in the reallocations. #4 seems to go into effect any time there is dollars in the variable funding pool.
With option #4, one possible negative is that a lot is dependent upon the county meeting 90% under the proposals that include option #4. Philosophically, while option #4 is a move in the right direction, it doesn't have a significant impact in terms of redistributing funds.
NOTE: The category ratio in the left column represents level of direct service expenditures relative to direct service allocation. In reviewing this data, totals may be different due to rounding.

Definition of Terms

AC	Alternate Care
BLS	Bureau of Labor Statistics
BSF	Basic Sliding Fee
CACFP	Child and Adult Care Food Program
CCAP	Child Care Assistance Program
CCDF	Child Care and Development Fund
CCRR	Child Care Resource and Referral
CPI	Consumer Price Index
DCTC	Dependent Care Tax Credit
DHS	Department of Human Services
IAR	Institute of Applied Research
LNL	Legally Non-Licensed
MA	Medical Assistance
MACSSA	Minnesota Association of County Social Service Administrators
MFIP	Minnesota Family Investment Program
NBER	National Bureau of Economic Research
NCCIC	National Child Care Information Center
NSAF	National Survey of American Families
OES	Occupational Employment Statistics
PPI	Product Price Index
RFP	Request For Proposal
SIPP	Survey of Income and Program Participation
SMI	State median Income
TANF	Temporary Assistance to Needy Families
U of M	University of Minnesota

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Footnotes—Appendices

[1] Please Note: Median was used in this analysis as income data were reported in median income format (Small Area Income and Population Estimates —SAIPE). According to the Census Bureau, care should be exercised in using and interpreting mean income values for small subgroups of the population. Because the mean is influenced strongly by extreme values in the distribution, it is especially susceptible to the effects of sampling variability, misreporting, and processing errors. The median, which is not affected by extreme values, is, therefore, a better measure than the mean when the population base is small.

[2] Episodic surveys, such as the Child Care Use study that is replicated every five years or national studies are the only other measure of demand across the population.(K2)

[3] Some of the children in the family child care category may be using legally non-licensed care but parent report did not allow for distinguishing between licensed and unlicensed family child care.

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