

**Senate Counsel, Research,
and Fiscal Analysis**

G-17 STATE CAPITOL
75 REV. DR. MARTIN LUTHER KING, JR. BLVD.
ST. PAUL, MN 55155-1606
(651) 296-4791
FAX: (651) 296-7747
JO ANNE ZOFF SELLNER
DIRECTOR

Senate

State of Minnesota

S.F. No. 2819 - Child Care Assistance Modifications

Author: Senator Hottinger

Prepared by: Joan White, Senate Counsel (651/296-3814)

Date: March 9, 2006

Section 1 amends the child care assistance eligibility formula, by striking language that required a household to have an income below 175 percent of poverty in order to be eligible. The modification allows all households that have an income less than 250 percent of poverty to be eligible for the program.

Section 2 strikes child care assistance rates paid to providers. Current law, which is stricken, requires on January 1, 2006, the maximum rate paid for child care assistance be the lesser of the 75th percentile rate for like child care arrangements, or the previous year's rate in the county increased by 1.75 percent. New language requires the maximum rate paid for child care assistance be adjusted annually and may not exceed the 75th percentile rate for like-care arrangements.

Section 3 allows a child care provider or child care center to be paid a 15 percent differential above the maximum rate, up to the actual provider rate, if the provider or center holds a current early childhood development credential or is accredited. This section defines credential and accreditation for both family child care providers and child care centers.

Section 4 suspends, from July 1, 2006, to June 30, 2008, county fees for background studies and licensing inspections in family child care and child care centers. The commissioner is required to use unallocated federal child care development fund money from the 2004-2005 biennium to reimburse the state and counties for the reduced child care revenue due to the temporary suspension. The commissioner is also required to set a standard statewide license and background study fee for family child care providers based on the average fees currently being charged.

Section 5 provides a new parent fee schedule for co-payments paid by parents who are using the child care assistance program.

Section 6 provides a blank appropriation from the general fund to the commissioner of human services to fund eligible families on the basic sliding fee waiting list. This section requires the appropriation amount be added to the basic sliding fee base budget for fiscal years 2008 and 2009.

Section 7 repeals the existing parent fee schedule, which is replaced in section 5.

Senators Hottinger, Berglin, Scheid, Kierlin and Johnson, D.E. introduced--
S.F. No. 2819: Referred to the Committee on Finance.

A bill for an act

relating to human services; modifying eligibility requirements for child care assistance; establishing a sliding fee child care schedule; modifying child care provider reimbursement rates; establishing a provider rate differential for accreditation; appropriating money; amending Minnesota Statutes 2004, sections 119B.13, by adding a subdivision; 245A.10, by adding a subdivision; Minnesota Statutes 2005 Supplement, sections 119B.09, subdivision 1; 119B.13, subdivision 1; repealing Laws 2003, First Special Session chapter 14, article 9, section 36.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2005 Supplement, section 119B.09, subdivision 1, is amended to read:

Subdivision 1. **General eligibility requirements for all applicants for child care assistance.** (a) Child care services must be available to families who need child care to find or keep employment or to obtain the training or education necessary to find employment and who:

(1) have household income less than or equal to 250 percent of the federal poverty guidelines, adjusted for family size, and meet the requirements of section 119B.05; receive MFIP assistance; and are participating in employment and training services under chapter 256J or 256K; or

(2) have household income ~~less than or equal to 175 percent of the federal poverty guidelines, adjusted for family size, at program entry and less than 250 percent of the federal poverty guidelines, adjusted for family size, at program exit.~~

(b) Child care services must be made available as in-kind services.

(c) All applicants for child care assistance and families currently receiving child care assistance must be assisted and required to cooperate in establishment of paternity and enforcement of child support obligations for all children in the family as a condition

2.1 of program eligibility. For purposes of this section, a family is considered to meet the
 2.2 requirement for cooperation when the family complies with the requirements of section
 2.3 256.741.

2.4 **EFFECTIVE DATE.** This section is effective July 1, 2006.

2.5 Sec. 2. Minnesota Statutes 2005 Supplement, section 119B.13, subdivision 1, is
 2.6 amended to read:

2.7 Subdivision 1. **Subsidy restrictions.** ~~(a)(i) Effective July 1, 2005, the commissioner~~
 2.8 ~~of human services shall modify the rate tables for child care centers published in~~
 2.9 ~~Department of Human Services Bulletin No. 03-68-07 so that in counties with regional or~~
 2.10 ~~statewide cells, the higher of the 100th percentile of the 2002 market rate survey data or~~
 2.11 ~~the rate currently identified in the bulletin will be the maximum rate. The rates established~~
 2.12 ~~in this clause will be considered as the previous year's rates for purposes of the increase in~~
 2.13 ~~item (iii), and shall be compared to the 100th percentile of current market rates.~~

2.14 ~~(ii) For the period between July 1, 2005, and through the full implementation of the~~
 2.15 ~~new rates under item (iii), the rates published in Department of Human Services Bulletin~~
 2.16 ~~No. 03-68-07 as adjusted by item (i) shall remain in effect.~~

2.17 ~~(iii) Beginning January 1, 2006, the maximum rate paid for child care assistance~~
 2.18 ~~in any county or multicounty region under the child care fund shall be the lesser of the~~
 2.19 ~~75th percentile rate for like-care arrangements in the county or multicounty region as~~
 2.20 ~~surveyed by the commissioner or the previous year's rate for like-care arrangements~~
 2.21 ~~in the county increased by 1.75 percent.~~

2.22 ~~(iv) Rate changes shall be implemented for services provided in March 2006 unless a~~
 2.23 ~~participant eligibility redetermination or a new provider agreement is completed between~~
 2.24 ~~January 1, 2006, and February 28, 2006.~~

2.25 ~~As necessary, appropriate notice of adverse action must be made according to~~
 2.26 ~~Minnesota Rules, part 3400.0185, subparts 3 and 4.~~

2.27 ~~New cases approved on or after January 1, 2006, shall have the maximum rates~~
 2.28 ~~under item (iii) implemented immediately.~~

2.29 ~~(b) (a) Not less than once every two years, the commissioner shall survey rates~~
 2.30 ~~charged by child care providers in Minnesota to determine the 75th percentile for~~
 2.31 ~~like-care arrangements in counties. When the commissioner determines that, using the~~
 2.32 ~~commissioner's established protocol, the number of providers responding to the survey is~~
 2.33 ~~too small to determine the 75th percentile rate for like-care arrangements in a county or~~
 2.34 ~~multicounty region, the commissioner may establish the 75th percentile maximum rate~~

3.1 based on like-care arrangements in a county, region, or category that the commissioner
3.2 deems to be similar.

(b) The maximum rate paid for child care assistance under the child care fund
3.4 must be adjusted annually and may not exceed the 75th percentile rate for like-care
3.5 arrangements in a county, region, or category the commissioner deems to be similar as
3.6 surveyed by the commissioner.

(c) A rate which includes a special needs rate paid under subdivision 3 may be in
3.8 excess of the maximum rate allowed under this subdivision.

(d) The department shall monitor the effect of this paragraph on provider rates. The
3.9 county shall pay the provider's full charges for every child in care up to the maximum
3.10 established. The commissioner shall determine the maximum rate for each type of care on
3.11 an hourly, full-day, and weekly basis, including special needs and handicapped care.
3.12

(e) When the provider charge is greater than the maximum provider rate allowed,
3.13 the parent is responsible for payment of the difference in the rates in addition to any
4 family co-payment fee.
3.15

3.16 **EFFECTIVE DATE.** This section is effective July 1, 2006.

3.17 Sec. 3. Minnesota Statutes 2004, section 119B.13, is amended by adding a subdivision
3.18 to read:

3.19 **Subd. 3a. Provider rate differential for accreditation.** A family child care
3.20 provider or child care center shall be paid a 15 percent differential above the maximum rate
3.21 established in subdivision 1, up to the actual provider rate, if the provider or center holds a
3.22 current early childhood development credential or is accredited. For a family child care
3.23 provider, early childhood development credential and accreditation includes an individual
3.24 who has earned a child development associate degree, a diploma in child development from
3.25 a Minnesota state technical college, or a bachelor's degree in early childhood education
3.26 from an accredited college or university, or who is accredited by the National Association
3.27 for Family Child Care or the Competency Based Training and Assessment Program. For a
3.28 child care center, accreditation includes accreditation by the National Association for the
3.29 Education of Young Children, the Council on Accreditation, the National Early Childhood
3.30 Program Accreditation, the National School-Age Care Association, or the National Head
3.31 Start Association Program of Excellence. For Montessori programs, accreditation includes
3.32 the American Montessori Society, Association of Montessori International-USA, or the
13 National Center for Montessori Education.

3.34 **EFFECTIVE DATE.** This section is effective July 1, 2006.

4.1 Sec. 4. Minnesota Statutes 2004, section 245A.10, is amended by adding a subdivision
4.2 to read:

4.3 Subd. 7. Temporary suspension of child care license fees. County fees for
4.4 background studies and licensing inspections in family and group family child care under
4.5 subdivision 2 and annual child care center license fees under subdivision 4 are suspended.
4.6 The commissioner shall use unallocated federal child care development fund money from
4.7 the 2004-2005 biennium to reimburse the state and counties for the reduced child care
4.8 licensure fee revenue due to the temporary suspension. The commissioner shall also set a
4.9 standard statewide license and background study fee for family child care providers based
4.10 on the average fees currently being charged. This subdivision expires June 30, 2008.

4.11 EFFECTIVE DATE. This section is effective July 1, 2006.

4.12 Sec. 5. PARENT FEE SCHEDULE.

4.13 Notwithstanding Minnesota Rules, part 3400.0100, subpart 4, the parent fee
4.14 schedule is as follows:

4.15 <u>Income Range (as a percent of the federal</u> 4.16 <u>poverty guidelines)</u>	<u>Co-payment (as a percentage of adjusted</u> <u>gross income)</u>
4.17 <u>0-74.99%</u>	<u>\$0/month</u>
4.18 <u>75.00-99.99%</u>	<u>\$5/month</u>
4.19 <u>100.00-104.99%</u>	<u>2.61%</u>
4.20 <u>105.00-109.99%</u>	<u>2.61%</u>
4.21 <u>110.00-114.99%</u>	<u>2.61%</u>
4.22 <u>115.00-119.99%</u>	<u>2.61%</u>
4.23 <u>120.00-124.99%</u>	<u>2.91%</u>
4.24 <u>125.00-129.99%</u>	<u>2.91%</u>
4.25 <u>130.00-134.99%</u>	<u>2.91%</u>
4.26 <u>135.00-139.99%</u>	<u>2.91%</u>
4.27 <u>140.00-144.99%</u>	<u>3.21%</u>
4.28 <u>145.00-149.99%</u>	<u>3.21%</u>
4.29 <u>150.00-154.99%</u>	<u>3.21%</u>
4.30 <u>155.00-159.99%</u>	<u>3.84%</u>
4.31 <u>160.00-164.99%</u>	<u>3.84%</u>

5.1	<u>165.00-169.99%</u>	<u>4.46%</u>
	<u>170.00-174.99%</u>	<u>4.76%</u>
5.3	<u>175.00-179.99%</u>	<u>5.05%</u>
5.4	<u>180.00-184.99%</u>	<u>5.65%</u>
5.5	<u>185.00-189.99%</u>	<u>5.95%</u>
5.6	<u>190.00-194.99%</u>	<u>6.24%</u>
5.7	<u>195.00-199.99%</u>	<u>6.84%</u>
5.8	<u>200.00-204.99%</u>	<u>7.58%</u>
5.9	<u>205.00-209.99%</u>	<u>8.33%</u>
5.10	<u>210.00-214.99%</u>	<u>9.20%</u>
1	<u>215.00-219.99%</u>	<u>10.07%</u>
5.12	<u>220.00-224.99%</u>	<u>10.94%</u>
5.13	<u>225.00-229.99%</u>	<u>11.55%</u>
5.14	<u>230.00-234.99%</u>	<u>12.16%</u>
5.15	<u>235.00-239.99%</u>	<u>12.77%</u>
5.16	<u>240.00-244.99%</u>	<u>13.38%</u>
5.17	<u>245.00-249.99%</u>	<u>14.00%</u>
5.18	<u>250%</u>	<u>ineligible</u>

5.19 A family's monthly co-payment fee is the fixed percentage established for the
 .20 income range multiplied by the highest possible income within that income range.

5.21 **EFFECTIVE DATE.** This section is effective July 1, 2006.

5.22 **Sec. 6. APPROPRIATIONS; BASIC SLIDING FEE CHILD CARE.**

5.23 \$..... is appropriated from the general fund to the commissioner of human services
 5.24 for fiscal year 2007 to fund child care assistance for eligible families on the basic sliding
 5.25 fee waiting list under Minnesota Statutes, section 119B.03, subdivision 2, as of July 1,
 5.26 2006. This amount shall be added to the basic sliding fee base budget for fiscal years
 5.27 2008 and 2009.

5.28 **Sec. 7. REPEALER.**

5.29 Laws 2003, First Special Session chapter 14, article 9, section 36, is repealed.

- 1.1 Senator moves to amend S.F. No. 2819 as follows:
 - 1.2 Page 4, delete section 4
 - 1.3 Renumber the sections in sequence and correct the internal references
- Amend the title accordingly

Fiscal Note – 2005-06 Session

Bill #: S2819-0 **Complete Date:** 03/13/06

Chief Author: HOTTINGER, JOHN

Title: CHILD CARE ASSISTANCE; SLIDING FEE

Fiscal Impact	Yes	No
State	X	
Local		X
Fee/Departmental Earnings	X	
Tax Revenue		X

Agency Name: Human Services Dept

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY05	FY06	FY07	FY08	FY09
Expenditures					
General Fund		4	35,264	61,426	69,329
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
General Fund		4	35,264	61,426	69,329
Revenues					
General Fund		0	(670)	(670)	
Net Cost <Savings>					
General Fund		4	35,934	62,096	69,329
Total Cost <Savings> to the State		4	35,934	62,096	69,329

	FY05	FY06	FY07	FY08	FY09
Full Time Equivalents					
-- No Impact --					
Total FTE					

NARRATIVE: SF 2819

This bill would:

- Section 1 - Modify the child care assistance income eligibility provisions to change the income entry eligibility to 250% FPG, the same as the current exit level,
- Section 2 – Require that provider maximum reimbursement rates be adjusted annually and not exceed the 75th percentile for like-care arrangements,
- Section 3 - Pay a 15 percent differential above the maximum rate (up to the actual provider rate) reimbursed under the child care assistance program to family or center providers if the provider or center holds a current early childhood development credential or is accredited,
- Section 4 - Suspend county fees for background studies and licensing inspections in family and group family child care under 245A.10, subdivision 2 and annual child care center license fees under 245A.10, subdivision 4 until June 30, 2008, pay the suspended fees with unallocated federal child care development funds from the 2004-2005 biennium, and require the Commissioner to set a standard statewide license and background study fee for family child care providers based on the average fees currently being charged,
- Section 5 and 7 - Modify the child care assistance parent fee schedule to reduce copayments. The current copayment schedule would be repealed.
- Section 6 - Appropriates general funds to fund child care assistance for eligible families on the basic sliding fee waiting list.

All changes are effective July 1, 2006.

Assumptions

Section 1 - See attached

Section 2 - See attached

Section 3 – See attached. In addition, the systems cost to implement this change is estimated at \$7,000 in FY 2006, of which the state share is \$3,450.

Section 4. Child Care Centers

Child care center fees are set forth in Minnesota Statutes, section 245A.10. Child care center licenses are issued on a calendar year basis with collected fees deposited in the state General Fund (GF). The annual revenue estimate for child care center fees is based on child care center billings for calendar year 2006. It is assumed the number of child care centers and their licensed capacities will not change in 2007 and 2008. If collection of the license fee is suspended in FY 07 and FY 08, the loss in revenue to the GF will be \$670,000 per year.

The loss in revenue to the GF will NOT be reimbursed by the CCDF as federal funds may be used to reimburse agencies only for actual costs. Federal funds may not be used to reimburse the GF for lost revenues. The result is this portion of the proposal would cost the state \$670,000/year in FY 07 and FY 08.

Family Child Care

Minnesota Statutes, section 245A.10, sets the maximum amount counties may charge family child care providers and applicants for background studies and license inspections. Minnesota Statutes, section 245A.10, subdivision 2, paragraph (a) permits counties to charge up to \$100 per year to conduct background studies in family and group family child care and to charge a fee up to \$150 annually to applicants and license holders to recover the cost of licensing inspections. Although not all counties are currently charging these fees, it is assumed that all counties will seek reimbursement for their costs, up to the maximum allowed, since counties will expect these costs to be reimbursed from the State rather than from actual providers.

License Inspections: On March 1, 2006, there were 12,612 licensed family and group family child care providers. 11,334 providers are anticipated as receiving annual license inspections for family child care. **At a cost of \$150 per provider, the total cost in license inspections is \$1,700,100 per year** (11,334 x \$150/provider). The following is a breakdown of the anticipated total number of annual license inspections for family child care providers:

License Inspections	Formula	Number
New Applicants	NA	1500
License Holders For Less Than Two Years - After	NA	1500

issuance of an initial license a license holder must be issued at least one annual license before the license holder begins a two-year license cycle		
License Holders for Two Years or More - It is estimated that one-half of the two-year programs minus those which have not completed their first two years of licensure will be inspected each year as part of their normal review cycle	Total Providers - 12,612 Providers Less Than Two Years - 1500 1/2 of Two Year Programs \times 50% 5556	5556
Programs Not Scheduled for Review - Finally, it is estimated that 50% of the remaining providers would receive a license inspection because of the unanticipated need to inspect the program during the off-year cycle or because counties would be reimbursed for conducting the license inspection visit.	Programs not scheduled for review 5556 50% receiving inspection \times 50% 2778	2778
TOTAL FAMILY PROVIDERS VISITED PER YEAR		11334

Background studies: March 1, 2006, there were 12,612 licensed family and group family child care providers. **It is estimated that a total of 9,000 providers would receive background studies at \$100 per provider for a total cost of \$900,000 per year.** The following is a breakdown of providers requiring background studies.

Background Studies	Formula	Total
Licensed Providers - One-half of licensed providers are anticipated to receive background studies each year.	Total Licensed Providers 12,612 \times 50% 6306	6306
Licensed Applicants - All licensed applicants are anticipated to receive background studies each year.	Total Licensed Applicants 1500	1500
Background Studies Due to Changes in Provider - . It is also estimated that counties will annually conduct background studies on an additional 25 percent of the providers due to changes in family composition, household members, or the hiring of new helpers or substitutes	Total Providers 12,612 Less Above Providers Rec. Background Studies - 7,806 25% of Remaining Providers \times 25% 1201	1201
TOTAL FAMILY PROVIDER BACKGROUND STUDIES		9007

TOTAL COUNTY REIMBURSEMENT

With licensing inspections and background studies combined for family providers (see above), it is estimated that counties would seek \$2,600,100 each year in reimbursement for family child care inspection and background study expenses (**\$1,700,100 plus \$900,000**). Because counties will be reimbursed for these costs, there is theoretically no impact on counties.

Legal Unlicensed Child Care

Minnesota Statutes, section 245A.10, subdivision 2, paragraph (b) permits counties to charge legal nonlicensed child care providers or applicants up to \$100 per year to recover the costs of background studies. It does not appear that the proposed bill intends to reimburse counties for those costs. However, it would be more clear if the legislation specifically referenced Minnesota Statutes, section 245A.10, subdivision 2, paragraph (a), rather than section 245A.10, subdivision 2.

Section 5 and 7 – See attached

This fiscal note assumes that the co-pay changes would be done with normally scheduled copay table changes, so there would be no additional administrative cost. If co-pay changes were done at a different time, cost would be \$17,680 of which the state share is \$9,724.

Section 6 – This bill appropriates funds for eligible families on the Basic Sliding Fee (BSF) waiting list as of July 1, 2006. The number of families on the July 1, 2006 waiting list will not be known at the point funding is appropriated, so estimating the funding needed for the July 1 list is not possible at this time. As an example of

funding all families on the waiting list at a point in time, in December 05 there were 4,876 cases on the BSF wait list. At the average BSF direct service monthly payment in FY07 (given all the other changes proposed in this bill) of \$790, it would cost \$48,531,228 to fund those cases for a year (including 5% admin).

Since the Basic Sliding Fee (BSF) waiting list fluctuates from month to month, and from county to county within those months, it would be difficult to implement a policy that would eliminate the waiting list. Appropriations for the BSF program are distributed through counties through a statutory allocation formula which would not necessarily direct the new funds to counties with waiting lists. In addition, as funds are distributed between counties, the amount that some counties receive may not be enough to move all families from the waiting list onto BSF.

Expenditure and/or Revenue Formula

Sections 1, 2, 3, 5 and 7 - See attached

Section 4

Formula and assumptions for the cost estimate have been combined due to their interdependent nature. See "Assumptions" for details on cost estimates.

Suspend child care center license fees -	\$670,000 per year
Suspend family child care license fees -	\$1,700,100 per year
Suspend child care provider background study fees	\$900,000 per year
Total Cost	\$2,600,100 per year

The reimbursement period is two years, beginning on July 1, 2006 and ending on June 30, 2008.

Beginning July 1, 2008, child care centers would be required to pay their annual license fee (billing in October 2008 for calendar year 2009).

Beginning July 1, 2008, counties would need to seek reimbursement from family child care providers and applicants for license inspection and background studies or waive the fees.

Long-term Fiscal Considerations

Local Government Costs

Since it is assumed that counties will be reimbursed up to the maximum charges permitted under Minnesota Statutes, section 245A.10, there is theoretically no net fiscal impact on local governments. The actual costs of conducting license inspections and background studies likely exceed \$250 per provider per year. However, these are licensing functions historically performed by the counties.

References/Sources

Sections 1-3 and 5-7

Susan Snyder

Reports & Forecasts Division

MN Dept of Human Services

651.431.2947

Section 4

Jerry Kerber,

Licensing Division

MN Dept. of Human Services

651.296.4473

Minnesota
CHILD CARE ASSISTANCE PROGRAM
Fiscal Analysis of SF2819

 Section 1: 250% FPG Entry

TY Entry From 175-250% FPG

This section establishes income eligibility for transition year child care for families up to 250% FPG. The effect of this change is to add eligibility for families who exit MFIP with income above the current TY entry level of 175% FPG and below 250% FPG and did not receive child care assistance while on MFIP.

Based on department data, it is estimated that about 4% of MFIP exits in a given month result from income between 175-250% FPG. It is further estimated that about one-fifth of these exits had no prior subsidized child care usage. Without prior use of MFIP child care, these cases would need to satisfy an initial income test and would be denied TY eligibility under current law. Finally, we assume about 30% of these former MFIP cases would apply for subsidized child care, and that each case would use an average of nine months of TY child care if eligible.

Since these additional families have average incomes higher than the overall TY caseload, they will pay higher average copays. Thus, the average monthly CCAP payment for these cases will be lower than the overall projections under current law. Based on department caseload data and the proposed copay schedule, the average CCAP payment for these additional cases is projected to be about \$119 per month less than the overall TY caseload average.

This section assumes the proposed maximum rate schedule and copay schedules in sections 2 and 5.

The effective date is July 1, 2006.

	FY 2006	FY 2007	FY 2008	FY 2009
	-----	-----	-----	-----
Avg monthly MFIP exits	2,820	2,820	2,820	2,820
Estimated percent between 175%-250% FPG	4%	4%	4%	4%
	-----	-----	-----	-----
Avg mon. MFIP exits between 175-250% FPG	104	104	104	104
Percent with no prior child care	20%	20%	20%	20%
	-----	-----	-----	-----
Avg monthly MFIP exits between 175-250 FPG with no prior child care	21	21	21	21
Percent applying for TY child care	30%	30%	30%	30%
	-----	-----	-----	-----
Avg monthly MFIP exits currently denied TY child care	6	6	6	6
Avg number of additional TY months per case	9	9	9	9
	-----	-----	-----	-----
Avg monthly TY child care payment (with copay adjustments)	\$707	\$790	\$851	\$898
Phase-in effect	0%	50%	100%	100%
	-----	-----	-----	-----
TY direct service cost	\$0	\$266,621	\$574,065	\$606,234
Administrative allowance	\$0	\$13,331	\$28,703	\$30,312
	-----	-----	-----	-----
Total TY cost	\$0	\$279,952	\$602,768	\$636,545

BSF Entry From 175-250% FPG

This section also eliminates the requirement that families have income less than 175% FPG to become eligible for the Basic Sliding Fee (BSF) program. Under current law, families must be below 175% FPG to enter the BSF program. However, once eligible, they can remain in the program until the family reaches 250% FPG. This policy change would allow additional families to become eligible for the BSF program with application incomes between 175-250% FPG.

During FY2003, the BSF program operated under an entry and exit income threshold of 300% FPG. This fiscal analysis assumes a similar income distribution to the FY2003 historical experience for families with incomes between 175-250% FPG. Thus, there is also a projected increase in BSF families with incomes between 200-250% FPG under this proposal.

Based on sample data used in federal reporting, it is estimated that about 18% of the current average monthly BSF caseload has income between 175-250% FPG. It is further estimated that about 34% of the FY2003 average monthly BSF caseload had income between 175-250% FPG. This difference can be interpreted as the additional expected caseload with incomes between 175-250% FPG if the 175% FPG income requirement were changed to 250% FPG for initial eligibility determination. Based on the projected average monthly BSF caseload in FY2007, this translates into an additional 2000 average monthly BSF cases with incomes between 175-250% FPG.

Since these additional BSF families have average incomes higher than the overall BSF caseload, they will pay higher average copays. Thus, the average monthly CCAP payment for these cases will be lower than the overall projections under current law. Based on department BSF caseload data and the proposed copay schedule, the average CCAP payment for these additional cases is projected to be about \$129 per month less than the overall BSF caseload average.

BSF is a capped appropriation that is allocated to counties. If BSF funding is not adjusted to reflect the costs in this fiscal note or the actual demand for BSF eligibility among families with application incomes between 175-250% FPG exceeds these projections, it will result in a larger waiting list.

This section assumes the proposed maximum rate schedule and copay schedules in sections 2 and 5.

The effective date is July 1, 2006.

	FY2006	FY2007	FY2008	FY2009
Additional average monthly BSF cases	2,033	2,033	2,033	2,033
Average monthly BSF payment (with copay adjustments)	\$604	\$681	\$739	\$786
Phase-in effect	0%	50%	100%	100%
Total BSF direct service cost	\$0	\$8,312,744	\$18,027,891	\$19,165,260
Administrative allowance	\$0	\$415,637	\$901,395	\$958,263
Total BSF Cost	\$0	\$8,728,381	\$18,929,286	\$20,123,523
	FY2006	FY2007	FY2008	FY2009
Total Cost of Section 1	\$0	\$9,008,333	\$19,532,054	\$20,760,069

Section 2: Maximum Reimbursement Rates Adjustment

Maximum reimbursement rates for child care providers were frozen July 1, 2003 at the levels that were set in 2002. Some maximum rates in rural counties were increased July 1, 2005, and on Jan 1, 2006, most maximum rates were increased to the lesser of the 75th percentile of the most recent market rates survey (2005) or the frozen rates inflated by 1.75%.

This section sets maximum reimbursement rates at the 75th percentile of the most recent market survey. The 2005 market survey would be used to set the rates July 1, 2006; rates would then be updated July of each year with the most recent market survey.

The fiscal impact of this policy change results from a) an expected MFIP child care caseload increase; b) an average payment increase that affects the MFIP, TY, and BSF programs; and c) a small adjustment in the cost of accelerated payments due to the implementation of the MEC2 system. Phase-in of rates is built into the estimated payment and caseload increases.

The relationship between average CCAP caseload and published maximum reimbursement rates is used to estimate the effect of increased reimbursement rates on MFIP child care caseload. Based on historical experience, and assuming phase-in of new cases, it is estimated that between 379 and 562 additional average monthly MFIP child care cases will result in FY07-09 because of the increased reimbursement rates.

The relationship between historical average CCAP payments and published maximum reimbursement tables is used to estimate the effect of the maximum rate increase on payments. These effects are also adjusted for expected phase-in of implementation. In FY07 average monthly payments are expected to increase between \$59 and \$81 per case. Average monthly payments are expected to increase between \$106 and \$144 in FY08 and between \$141 and \$193 in FY09.

BSF is a capped appropriation that is allocated to counties. This fiscal analysis uses a "base forecast" which assumes a caseload in the BSF program based on the number of cases that are expected to be served given the average payments projected in the February 2006 forecast.

	FY2006	FY2007	FY2008	FY2009
MFIP Caseload Effect				
Average monthly MFIP child care caseload increase	0	379	550	562
Average monthly MFIP payment	\$971	\$1,076	\$1,154	\$1,218
Months	0	12	12	12
Direct service cost	\$0	\$4,898,731	\$7,613,122	\$8,208,634
Administrative allowance	\$0	\$244,937	\$380,656	\$410,432
MFIP cost due to caseload increase	\$0	\$5,143,668	\$7,993,778	\$8,619,066
MFIP Average Payment Effect				
Average monthly MFIP child care caseload	5,765	6,032	5,997	6,010
Average monthly MFIP payment increase	\$0	\$81	\$144	\$193
Number of months	0	12	12	12

Direct service cost	\$0	\$5,851,899	\$10,376,345	\$13,885,520
Administrative allowance	\$0	\$292,595	\$518,817	\$694,276
MFIP cost due to average payment	\$0	\$6,144,494	\$10,895,162	\$14,579,796
TY Average Payment Effect	FY2006	FY2007	FY2008	FY2009
Average monthly TY child care caseload	2,802	2,814	2,789	2,781
Average monthly TY payment increase	\$0	\$67	\$120	\$159
Months	0	12	12	12
Direct service cost	\$0	\$2,275,288	\$4,003,524	\$5,304,993
Administrative allowance	\$0	\$113,764	\$200,176	\$265,250
TY cost due to average payment	\$0	\$2,389,053	\$4,203,700	\$5,570,243
BSF Average Grant Effect	FY2006	FY2007	FY2008	FY2009
Average monthly BSF child care caseload	8,394	8,254	8,304	8,408
Average monthly BSF payment increase	\$0	\$59	\$106	\$141
Months	0	12	12	12
Direct service cost	\$0	\$5,879,608	\$10,551,073	\$14,263,892
Administrative allowance	\$0	\$293,980	\$527,554	\$713,195
BSF cost due to average payment	\$0	\$6,173,588	\$11,078,627	\$14,977,086
Increased Billing During System Transition	FY2006	FY2007	FY2008	FY2009
MFIP/TY direct service cost due to sys. tran	\$0	\$244,236	\$274,912	\$0
Administrative allowance	\$0	\$12,212	\$13,746	\$0
MFIP/TY cost due to system transition	\$0	\$256,448	\$288,658	\$0
BSF direct service cost due to sys. trans.	\$0	\$110,243	\$131,888	\$0
Administrative allowance	\$0	\$5,512	\$6,594	\$0
BSF cost due to system transition	\$0	\$115,755	\$138,483	\$0
	FY2006	FY2007	FY2008	FY2009
Total MFIP/TY Cost	\$0	\$13,933,662	\$23,381,299	\$28,769,104
Total BSF Cost	\$0	\$6,289,343	\$11,217,110	\$14,977,086
Total Cost of section 2	\$0	\$20,223,004	\$34,598,408	\$43,746,191

Section 3: Accreditation differential

This section provides a 15% differential above the maximum reimbursement rate, up to the actual provider rate, for specified providers.

Based on data from the National Association of Child Care Referral and Resource Agency, it is estimated that approximately 9% of MFIP/TY children and 12% of BSF children are in accredited child care. It is assumed that about 50% of these children are using providers who are charging above the CCAP maximum reimbursement rates as proposed in this bill. Based on department data on provider rates, it is expected that these accredited providers would receive an average monthly increase of around \$90 for MFIP/TY cases and around \$78 for BSF cases.

The effective date is July 1, 2006. A 6-month phase-in is assumed.

This section assumes the proposed eligibility changes, maximum rate schedule and copay schedules in sections 1, 2 and 5.

MFIP/TY Child Care	FY2006	FY2007	FY2008	FY2009
Avg monthly MFIP/TY children (forecast)	15,522	16,026	15,916	15,926
Avg monthly additional MFIP/TY children (maximum rate increase & 250% elig change)	0	784	1,093	1,114
Avg monthly MFIP/TY children	15,522	16,810	17,009	17,041
Percent using accredited child care providers	9%	9%	9%	9%
Avg monthly MFIP/TY children using accredited child care providers	1,403	1,519	1,537	1,540
Percent above maximum rate	50%	50%	50%	50%

Avg monthly MFIP/TY children with higher rates	701	759	768	770
Monthly rate differential	\$81.67	\$85.35	\$89.19	\$93.20
Phase-in	0%	75%	100%	100%
MFIP/TY direct service cost	\$0	\$583,380	\$822,461	\$861,075
County administrative allowance	\$0	\$29,169	\$41,123	\$43,054
Total MFIP/TY cost	\$0	\$612,549	\$863,584	\$904,128

BSF Child Care

	FY2006	FY2007	FY2008	FY2009
Avg monthly BSF children (forecast)	14,867	14,619	14,709	14,893
Avg monthly additional BSF children (250% elig change)	0	3,599	3,599	3,599
Avg monthly BSF children	14,867	18,218	18,308	18,491
Percent using accredited child care providers	12%	12%	12%	12%
Avg monthly BSF children using accredited child care providers	1,754	2,149	2,160	2,181
Percent above maximum rate	50%	50%	50%	50%
Avg monthly BSF children with higher rate	877	1074	1080	1091
Monthly rate differential	\$71.47	\$74.69	\$78.05	\$81.56
Phase-in	0%	75%	100%	100%
BSF direct service cost	\$0	\$722,235	\$1,011,247	\$1,067,368
County administrative allowance	\$0	\$36,112	\$50,562	\$53,368
Total BSF cost	\$0	\$758,346	\$1,061,809	\$1,120,737

	FY2006	FY2007	FY2008	FY2009
Total Cost of section 3	\$0	\$1,370,895	\$1,925,393	\$2,024,865

Section 5: Copay Schedule Change

This section repeals the current law CCAP copayment schedule and replaces it with a new schedule. The current law schedule charges no copay for families with income under 75% of the federal poverty guidelines (FPG), charges a copay of \$5/month for families with incomes between 75% and 100% FPG, and charges a sliding scale copay amount starting at 3.23% of income for families between 100%-125% FPG and ending with 18% income for families between 245%-250% FPG. The new copay schedule would charge a copay of \$5/month for families with incomes between 75% and 100% FPG and charge a sliding scale copay amount starting at 2.61% of income for families between 100%-125% FPG and ending with 14% income for families between 245%-250% FPG.

Based on department data and the published copayment tables for FY2006, it is estimated that the average monthly MFIP/TY copay would decrease by about \$6/month (from \$30/month to \$24/month) under the new schedule, and the average monthly BSF copay would decrease by about \$20/month (from \$98/month to \$78/month). These copay reductions would be made up by increases in CCAP payments.

The effective date is July 1, 2006. This copay change will impact individual CCAP cases as their income is redetermined, leading to a 6-month phase-in.

This section assumes the proposed maximum rate schedule in section 2.

MFIP/TY Child Care	FY2006	FY2007	FY2008	FY2009
Avg monthly MFIP/TY cases (forecast)	8,568	8,846	8,786	8,791
Avg monthly additional MFIP/TY cases (maximum rate increase)	0	379	550	562
Average monthly MFIP/TY cases	8,568	9,225	9,335	9,353
Average monthly MFIP/TY copay reduction	\$6	\$6	\$6	\$6
Phase-in	0%	75%	100%	100%
MFIP/TY direct service cost	\$0	\$485,914	\$655,607	\$656,838
County administrative allowance	\$0	\$24,296	\$32,780	\$32,842
Total MFIP/TY cost	\$0	\$510,210	\$688,388	\$689,680

BSF Child Care	FY2006	FY2007	FY2008	FY2009
----------------	--------	--------	--------	--------

Average monthly BSF cases	8,394	8,254	8,304	8,408
Average monthly BSF copay reduction	\$20	\$20	\$20	\$20
Phase-in	0%	75%	100%	100%
BSF direct service cost	\$0	\$1,477,998	\$1,982,704	\$2,007,493
County administrative allowance	\$0	\$73,900	\$99,135	\$100,375
Total BSF cost	\$0	\$1,551,898	\$2,081,839	\$2,107,867
	FY2006	FY2007	FY2008	FY2009
Total Cost of section 5	\$0	\$2,062,108	\$2,770,226	\$2,797,547
Fiscal Summary	FY2006	FY2007	FY2008	FY2009
		(in thousands)		
MFIP/TY				
Increase entry level	\$0	\$280	\$603	\$637
Maximum Reimbursement Rates	\$0	\$13,934	\$23,381	\$28,769
Accreditation bonus	\$0	\$613	\$864	\$904
Copay Schedule	\$0	\$510	\$688	\$690
MFIP/TY Total Cost	\$0	\$15,336	\$25,536	\$30,999
BSF				
Increase entry level	\$0	\$8,728	\$18,929	\$20,124
Maximum Reimbursement Rates	\$0	\$6,289	\$11,217	\$14,977
Accreditation bonus	\$0	\$758	\$1,062	\$1,121
Copay Schedule	\$0	\$1,552	\$2,082	\$2,108
BSF Total Cost	\$0	\$17,328	\$33,290	\$38,329
Total Cost	\$0	\$32,664	\$58,826	\$69,329

Agency Contact Name: Jenny Ehrnst 282-2595
 FN Coord Signature: STEVE BARTA
 Date: 03/13/06 Phone: 431-2916

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: DOUG GREEN
 Date: 03/13/06 Phone: 286-5618

**Senate Counsel, Research,
and Fiscal Analysis**

G-17 STATE CAPITOL
75 REV. DR. MARTIN LUTHER KING, JR. BLVD.
ST. PAUL, MN 55155-1606
(651) 296-4791
FAX: (651) 296-7747
JO ANNE ZOFF SELLNER
DIRECTOR

Senate

State of Minnesota

**S.F. No. 3015 - Welfare Reform/Appropriation from Tax
Relief Account Bill**

Author: Senator Linda Berglin

Prepared by: Joan White, Senate Counsel (651/296-3814)

Date: March 13, 2006



Section 1 (Minnesota Statutes 2005 Supplement, section 119B.09, subdivision 1) changes the eligibility for child care assistance, allowing households that have an income less than or equal to 200 percent of the federal poverty guidelines, instead of 175 percent, to be eligible for child care assistance.

Section 2 (proposed coding, section 119B.095) reinstates the child care co-payment schedule that was effective prior to the 2003 legislative session.

Section 3 (Minnesota Statutes 2004, section 119B.13, adding subdivision 8) provides a two percent cost of living increase to child care provider rates.

Section 4 (Minnesota Statutes 2005 Supplement, section 256D.03, subdivision 3) reinstates emergency services under the general assistance medical care (GAMC) program for undocumented noncitizens and nonimmigrants.

Section 5 (Minnesota Statutes 2005 Supplement, section 256D.03, subdivision 4) eliminates GAMC co-payments

Section 6 (Minnesota Statutes 2004, section 256J.24, adding subdivision 5b) provides a ten percent cost of living increase to the MFIP transitional standard.

Section 7 provides a blank appropriation from the tax relief account to the commissioner of human services for purposes of this bill.

Section 8 provides repealers.

Paragraph (a), Minnesota Statutes, section 256B.0631, subdivisions 2 and 4, repeals Medical Assistance co-payments; section 256J.37, subdivision 3a, repeals the MFIP housing penalty; and section 256L.04, subdivision 10, repeals MinnesotaCare ineligibility provisions for noncitizens..

Paragraph (b), Minnesota Statutes, section 256B.0631, subdivisions 1 and 3, repeal Medical Assistance co-payments; and section 256J.37, subdivision 3b, repeals the MFIP SSI penalty.

Paragraph (c) repeals the existing child care fee schedule.

JW:mvm

Senators Berglin; Pogemiller; Johnson, D.E.; Koering and Dille introduced—
S.F. No. 3015: Referred to the Committee on Finance.

A bill for an act

relating to human services; making changes to child care provider rates and parent fees; eliminating certain health care co-pays; increasing the MFIP transitional standard; reinstating health care benefits for certain noncitizens; repealing MFIP housing and SSI penalties; appropriating money; amending Minnesota Statutes 2004, sections 119B.13, by adding a subdivision; 256J.24, by adding a subdivision; Minnesota Statutes 2005 Supplement, sections 119B.09, subdivision 1; 256D.03, subdivisions 3, 4; proposing coding for new law in Minnesota Statutes, chapter 119B; repealing Minnesota Statutes 2004, sections 256B.0631, subdivisions 2, 4; 256J.37, subdivision 3a; 256L.04, subdivision 10; Minnesota Statutes 2005 Supplement, sections 256B.0631, subdivisions 1, 3; 256J.37, subdivision 3b; Laws 2005, First Special Session chapter 4, article 3, section 19.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2005 Supplement, section 119B.09, subdivision 1, is amended to read:

Subdivision 1. **General eligibility requirements for all applicants for child care assistance.** (a) Child care services must be available to families who need child care to find or keep employment or to obtain the training or education necessary to find employment and who:

(1) have household income less than or equal to 250 percent of the federal poverty guidelines, adjusted for family size, and meet the requirements of section 119B.05; receive MFIP assistance; and are participating in employment and training services under chapter 256J or 256K; or

(2) have household income less than or equal to ~~175~~ 200 percent of the federal poverty guidelines, adjusted for family size, at program entry and less than 250 percent of the federal poverty guidelines, adjusted for family size, at program exit.

(b) Child care services must be made available as in-kind services.

2.1 (c) All applicants for child care assistance and families currently receiving child care
 2.2 assistance must be assisted and required to cooperate in establishment of paternity and
 2.3 enforcement of child support obligations for all children in the family as a condition
 2.4 of program eligibility. For purposes of this section, a family is considered to meet the
 2.5 requirement for cooperation when the family complies with the requirements of section
 2.6 256.741.

2.7 **Sec. 2. [119B.095] CO-PAYMENT FEE FOR FAMILIES WITH ANNUAL**
 2.8 **INCOMES THAT EXCEED THE FEDERAL POVERTY LEVEL.**

2.9 (a) The monthly family co-payment fee for families with annual incomes greater than
 2.10 the federal poverty level, adjusted for family size, is determined in paragraphs (b) and (c).

2.11 (b) The family's annual gross income is converted into a percentage of state median
 2.12 income (SMI) for a family of four, adjusted for family size, by dividing the family's
 2.13 annual gross income by 100 percent of the SMI for a family of four, adjusted for family
 2.14 size. The percentage must be carried out to the nearest 100th of a percent.

2.15 (c) If the family's annual gross income is less than or equal to 75 percent of the
 2.16 SMI for a family of four, adjusted for family size, the family's monthly co-payment fee
 2.17 is the fixed percentage established for the family's income range in clauses (1) to (60),
 2.18 multiplied by the highest possible income within that income range, divided by 12, and
 2.19 rounded to the nearest whole dollar.

	<u>Percent of SMI</u>	<u>Percent</u>
2.20		
2.21	<u>(1) less than 35.01</u>	<u>2.20</u>
2.22	<u>(2) 35.01 to 42.00</u>	<u>2.70</u>
2.23	<u>(3) 42.01 to 43.00</u>	<u>3.75</u>
2.24	<u>(4) 43.01 to 44.00</u>	<u>4.00</u>
2.25	<u>(5) 44.01 to 45.00</u>	<u>4.25</u>
2.26	<u>(6) 45.01 to 46.00</u>	<u>4.50</u>
2.27	<u>(7) 46.01 to 47.00</u>	<u>4.75</u>
2.28	<u>(8) 47.01 to 48.00</u>	<u>5.00</u>
2.29	<u>(9) 48.01 to 49.00</u>	<u>5.25</u>
2.30	<u>(10) 49.01 to 50.00</u>	<u>5.50</u>
2.31	<u>(11) 50.01 to 50.50</u>	<u>5.75</u>
2.32	<u>(12) 50.51 to 51.00</u>	<u>6.00</u>

3.1	(13)	<u>51.01 to 51.50</u>	<u>6.25</u>
	(14)	<u>51.51 to 52.00</u>	<u>6.50</u>
3.3	(15)	<u>52.01 to 52.50</u>	<u>6.75</u>
3.4	(16)	<u>52.51 to 53.00</u>	<u>7.00</u>
3.5	(17)	<u>53.01 to 53.50</u>	<u>7.25</u>
3.6	(18)	<u>53.51 to 54.00</u>	<u>7.50</u>
3.7	(19)	<u>54.01 to 54.50</u>	<u>7.75</u>
3.8	(20)	<u>54.51 to 55.00</u>	<u>8.00</u>
3.9	(21)	<u>55.01 to 55.50</u>	<u>8.30</u>
3.10	(22)	<u>55.51 to 56.00</u>	<u>8.60</u>
	(23)	<u>56.01 to 56.50</u>	<u>8.90</u>
3.12	(24)	<u>56.51 to 57.00</u>	<u>9.20</u>
3.13	(25)	<u>57.01 to 57.50</u>	<u>9.50</u>
3.14	(26)	<u>57.51 to 58.00</u>	<u>9.80</u>
3.15	(27)	<u>58.01 to 58.50</u>	<u>10.10</u>
3.16	(28)	<u>58.51 to 59.00</u>	<u>10.40</u>
3.17	(29)	<u>59.01 to 59.50</u>	<u>10.70</u>
3.18	(30)	<u>59.51 to 60.00</u>	<u>11.00</u>
	(31)	<u>60.01 to 60.50</u>	<u>11.30</u>
3.20	(32)	<u>60.51 to 61.00</u>	<u>11.60</u>
3.21	(33)	<u>61.01 to 61.50</u>	<u>11.90</u>
3.22	(34)	<u>61.51 to 62.00</u>	<u>12.20</u>
3.23	(35)	<u>62.01 to 62.50</u>	<u>12.50</u>
3.24	(36)	<u>62.51 to 63.00</u>	<u>12.80</u>
3.25	(37)	<u>63.01 to 63.50</u>	<u>13.10</u>
3.26	(38)	<u>63.51 to 64.00</u>	<u>13.40</u>
3.27	(39)	<u>64.01 to 64.50</u>	<u>13.70</u>
	(40)	<u>64.51 to 65.00</u>	<u>14.00</u>
3.29	(41)	<u>65.01 to 65.50</u>	<u>14.30</u>

4.1	<u>(42)</u>	<u>65.51 to 66.00</u>	<u>14.60</u>
4.2	<u>(43)</u>	<u>66.01 to 66.50</u>	<u>14.90</u>
4.3	<u>(44)</u>	<u>66.51 to 67.00</u>	<u>15.20</u>
4.4	<u>(45)</u>	<u>67.01 to 67.50</u>	<u>15.50</u>
4.5	<u>(46)</u>	<u>67.51 to 68.00</u>	<u>15.80</u>
4.6	<u>(47)</u>	<u>68.01 to 68.50</u>	<u>16.10</u>
4.7	<u>(48)</u>	<u>68.51 to 69.00</u>	<u>16.40</u>
4.8	<u>(49)</u>	<u>69.01 to 69.50</u>	<u>16.70</u>
4.9	<u>(50)</u>	<u>69.51 to 70.00</u>	<u>17.00</u>
4.10	<u>(51)</u>	<u>70.01 to 70.50</u>	<u>17.30</u>
4.11	<u>(52)</u>	<u>70.51 to 71.00</u>	<u>17.60</u>
4.12	<u>(53)</u>	<u>71.01 to 71.50</u>	<u>17.90</u>
4.13	<u>(54)</u>	<u>71.51 to 72.00</u>	<u>18.20</u>
4.14	<u>(55)</u>	<u>72.01 to 72.50</u>	<u>18.50</u>
4.15	<u>(56)</u>	<u>72.51 to 73.00</u>	<u>18.80</u>
4.16	<u>(57)</u>	<u>73.01 to 73.50</u>	<u>19.10</u>
4.17	<u>(58)</u>	<u>73.51 to 74.00</u>	<u>19.40</u>
4.18	<u>(59)</u>	<u>74.01 to 74.50</u>	<u>19.70</u>
4.19	<u>(60)</u>	<u>74.51 to 75.00</u>	<u>20.00</u>

4.20 Sec. 3. Minnesota Statutes 2004, section 119B.13, is amended by adding a subdivision
 4.21 to read:

4.22 Subd. 8. Cost of living increase. In addition to the provider rates specified under
 4.23 this section, the commissioner shall provide a two percent cost of living rate increase to
 4.24 providers.

4.25 Sec. 4. Minnesota Statutes 2005 Supplement, section 256D.03, subdivision 3, is
 4.26 amended to read:

4.27 Subd. 3. General assistance medical care; eligibility. (a) General assistance
 4.28 medical care may be paid for any person who is not eligible for medical assistance under
 4.29 chapter 256B, including eligibility for medical assistance based on a spenddown of excess

5.1 income according to section 256B.056, subdivision 5, or MinnesotaCare as defined in
5.2 paragraph (b), except as provided in paragraph (c), and:

5.3 (1) who is receiving assistance under section 256D.05, except for families with
5.4 children who are eligible under Minnesota family investment program (MFIP), or who is
5.5 having a payment made on the person's behalf under sections 256I.01 to 256I.06; or

5.6 (2) who is a resident of Minnesota; and

5.7 (i) who has gross countable income not in excess of 75 percent of the federal poverty
5.8 guidelines for the family size, using a six-month budget period and whose equity in assets
5.9 is not in excess of \$1,000 per assistance unit. Exempt assets, the reduction of excess
5.10 assets, and the waiver of excess assets must conform to the medical assistance program in
5.11 section 256B.056, subdivision 3, with the following exception: the maximum amount of
5.12 undistributed funds in a trust that could be distributed to or on behalf of the beneficiary by
5.13 the trustee, assuming the full exercise of the trustee's discretion under the terms of the
5.14 trust, must be applied toward the asset maximum;

5.15 (ii) who has gross countable income above 75 percent of the federal poverty
5.16 guidelines but not in excess of 175 percent of the federal poverty guidelines for the
5.17 family size, using a six-month budget period, whose equity in assets is not in excess
5.18 of the limits in section 256B.056, subdivision 3c, and who applies during an inpatient
5.19 hospitalization; or

5.20 (iii) the commissioner shall adjust the income standards under this section each July
5.21 1 by the annual update of the federal poverty guidelines following publication by the
5.22 United States Department of Health and Human Services.

5.23 (b) Effective for applications and renewals processed on or after September 1, 2006,
5.24 general assistance medical care may not be paid for applicants or recipients who are adults
5.25 with dependent children under 21 whose gross family income is equal to or less than 275
5.26 percent of the federal poverty guidelines who are not described in paragraph (e).

5.27 (c) Effective for applications and renewals processed on or after September 1, 2006,
5.28 general assistance medical care may be paid for applicants and recipients who meet all
5.29 eligibility requirements of paragraph (a), clause (2), item (i), for a temporary period
5.30 beginning the date of application. Immediately following approval of general assistance
5.31 medical care, enrollees shall be enrolled in MinnesotaCare under section 256L.04,
5.32 subdivision 7, with covered services as provided in section 256L.03 for the rest of the
5.33 six-month eligibility period, until their six-month renewal.

5.34 (d) To be eligible for general assistance medical care following enrollment in
5.35 MinnesotaCare as required by paragraph (c), an individual must complete a new
5.36 application.

6.1 (e) Applicants and recipients eligible under paragraph (a), clause (1), or who have
6.2 applied for and are awaiting a determination of blindness or disability by the state medical
6.3 review team or a determination of eligibility for Supplemental Security Income or Social
6.4 Security Disability Insurance by the Social Security Administration, or who fail to meet
6.5 the requirements of section 256L.09, subdivision 2, are exempt from the MinnesotaCare
6.6 enrollment requirements of this subdivision.

6.7 (f) For applications received on or after October 1, 2003, eligibility may begin no
6.8 earlier than the date of application. For individuals eligible under paragraph (a), clause
6.9 (2), item (i), a redetermination of eligibility must occur every 12 months. Individuals are
6.10 eligible under paragraph (a), clause (2), item (ii), only during inpatient hospitalization but
6.11 may reapply if there is a subsequent period of inpatient hospitalization.

6.12 (g) Beginning September 1, 2006, Minnesota health care program applications and
6.13 renewals completed by recipients and applicants who are persons described in paragraph
6.14 (c) and submitted to the county agency shall be determined for MinnesotaCare eligibility
6.15 by the county agency. If all other eligibility requirements of this subdivision are met,
6.16 eligibility for general assistance medical care shall be available in any month during which
6.17 MinnesotaCare enrollment is pending. Upon notification of eligibility for MinnesotaCare,
6.18 notice of termination for eligibility for general assistance medical care shall be sent to
6.19 an applicant or recipient. If all other eligibility requirements of this subdivision are
6.20 met, eligibility for general assistance medical care shall be available until enrollment in
6.21 MinnesotaCare subject to the provisions of paragraphs (c), (e), and (f).

6.22 (h) The date of an initial Minnesota health care program application necessary to
6.23 begin a determination of eligibility shall be the date the applicant has provided a name,
6.24 address, and Social Security number, signed and dated, to the county agency or the
6.25 Department of Human Services. If the applicant is unable to provide a name, address,
6.26 Social Security number, and signature when health care is delivered due to a medical
6.27 condition or disability, a health care provider may act on an applicant's behalf to establish
6.28 the date of an initial Minnesota health care program application by providing the county
6.29 agency or Department of Human Services with provider identification and a temporary
6.30 unique identifier for the applicant. The applicant must complete the remainder of the
6.31 application and provide necessary verification before eligibility can be determined. The
6.32 county agency must assist the applicant in obtaining verification if necessary.

6.33 (i) County agencies are authorized to use all automated databases containing
6.34 information regarding recipients' or applicants' income in order to determine eligibility
6.35 for general assistance medical care or MinnesotaCare. Such use shall be considered
6.36 sufficient in order to determine eligibility and premium payments by the county agency.

7.1 (j) General assistance medical care is not available for a person in a correctional
7.2 facility unless the person is detained by law for less than one year in a county correctional
7.3 or detention facility as a person accused or convicted of a crime, or admitted as an
7.4 inpatient to a hospital on a criminal hold order, and the person is a recipient of general
7.5 assistance medical care at the time the person is detained by law or admitted on a criminal
7.6 hold order and as long as the person continues to meet other eligibility requirements
7.7 of this subdivision.

7.8 (k) General assistance medical care is not available for applicants or recipients who
7.9 do not cooperate with the county agency to meet the requirements of medical assistance.

7.10 (l) In determining the amount of assets of an individual eligible under paragraph
7.11 (a), clause (2), item (i), there shall be included any asset or interest in an asset, including
7.12 an asset excluded under paragraph (a), that was given away, sold, or disposed of for
7.13 less than fair market value within the 60 months preceding application for general
7.14 assistance medical care or during the period of eligibility. Any transfer described in this
7.15 paragraph shall be presumed to have been for the purpose of establishing eligibility for
7.16 general assistance medical care, unless the individual furnishes convincing evidence to
7.17 establish that the transaction was exclusively for another purpose. For purposes of this
7.18 paragraph, the value of the asset or interest shall be the fair market value at the time it
7.19 was given away, sold, or disposed of, less the amount of compensation received. For any
7.20 uncompensated transfer, the number of months of ineligibility, including partial months,
7.21 shall be calculated by dividing the uncompensated transfer amount by the average monthly
7.22 per person payment made by the medical assistance program to skilled nursing facilities
7.23 for the previous calendar year. The individual shall remain ineligible until this fixed period
7.24 has expired. The period of ineligibility may exceed 30 months, and a reapplication for
7.25 benefits after 30 months from the date of the transfer shall not result in eligibility unless
7.26 and until the period of ineligibility has expired. The period of ineligibility begins in the
7.27 month the transfer was reported to the county agency, or if the transfer was not reported,
7.28 the month in which the county agency discovered the transfer, whichever comes first. For
7.29 applicants, the period of ineligibility begins on the date of the first approved application.

7.30 (m) When determining eligibility for any state benefits under this subdivision,
7.31 the income and resources of all noncitizens shall be deemed to include their sponsor's
7.32 income and resources as defined in the Personal Responsibility and Work Opportunity
7.33 Reconciliation Act of 1996, title IV, Public Law 104-193, sections 421 and 422, and
7.34 subsequently set out in federal rules.

7.35 (n) (1) An undocumented noncitizens and nonimmigrants are noncitizen or a
7.36 nonimmigrant is ineligible for general assistance medical care other than emergency

8.1 services. For purposes of this subdivision, a nonimmigrant is an individual in one or
 8.2 more of the classes listed in United States Code, title 8, section 1101(a)(15), and an
 8.3 undocumented noncitizen is an individual who resides in the United States without the
 8.4 approval or acquiescence of the Immigration and Naturalization Service.

8.5 (2) This paragraph does not apply to a child under age 18; to a Cuban or Haitian
 8.6 entrant as defined in Public Law 96-422, section 501(e)(1) or (2)(a); or to a noncitizen
 8.7 who is aged, blind, or disabled as defined in Code of Federal Regulations, title 42,
 8.8 sections 435.520, 435.530, 435.531, 435.540, and 435.541, who cooperates with United
 8.9 States Citizenship and Immigration Services to pursue any applicable immigration status,
 8.10 including citizenship, that would qualify the individual for medical assistance with federal
 8.11 financial participation.

8.12 (3) For purposes of this paragraph, "emergency services" has the meaning given in
 8.13 Code of Federal Regulations, title 42, section 440.255(b)(1), except that it also means
 8.14 services rendered because of suspected or actual pesticide poisoning.

8.15 (o) Notwithstanding any other provision of law, a noncitizen who is ineligible for
 8.16 medical assistance due to the deeming of a sponsor's income and resources, is ineligible
 8.17 for general assistance medical care.

8.18 ~~(p) Effective July 1, 2003, general assistance medical care emergency services end.~~

8.19 Sec. 5. Minnesota Statutes 2005 Supplement, section 256D.03, subdivision 4, is
 8.20 amended to read:

8.21 Subd. 4. **General assistance medical care; services.** (a)(i) For a person who is
 8.22 eligible under subdivision 3, paragraph (a), clause (2), item (i), general assistance medical
 8.23 care covers, except as provided in paragraph (c):

8.24 (1) inpatient hospital services;

8.25 (2) outpatient hospital services;

8.26 (3) services provided by Medicare certified rehabilitation agencies;

8.27 (4) prescription drugs and other products recommended through the process
 8.28 established in section 256B.0625, subdivision 13;

8.29 (5) equipment necessary to administer insulin and diagnostic supplies and equipment
 8.30 for diabetics to monitor blood sugar level;

8.31 (6) eyeglasses and eye examinations provided by a physician or optometrist;

8.32 (7) hearing aids;

8.33 (8) prosthetic devices;

8.34 (9) laboratory and X-ray services;

8.35 (10) physician's services;

- 9.1 (11) medical transportation except special transportation;
- 9.2 (12) chiropractic services as covered under the medical assistance program;
- (13) podiatric services;
- 9.4 (14) dental services as covered under the medical assistance program;
- 9.5 (15) outpatient services provided by a mental health center or clinic that is under
- 9.6 contract with the county board and is established under section 245.62;
- 9.7 (16) day treatment services for mental illness provided under contract with the
- 9.8 county board;
- 9.9 (17) prescribed medications for persons who have been diagnosed as mentally ill as
- 9.10 necessary to prevent more restrictive institutionalization;
- 9.11 (18) psychological services, medical supplies and equipment, and Medicare
- 9.12 premiums, coinsurance and deductible payments;
- 9.13 (19) medical equipment not specifically listed in this paragraph when the use of
- 9.14 the equipment will prevent the need for costlier services that are reimbursable under
- 9.15 this subdivision;
- 9.16 (20) services performed by a certified pediatric nurse practitioner, a certified family
- 9.17 nurse practitioner, a certified adult nurse practitioner, a certified obstetric/gynecological
- 9.18 nurse practitioner, a certified neonatal nurse practitioner, or a certified geriatric nurse
- 9.19 practitioner in independent practice, if (1) the service is otherwise covered under this
- 9.20 chapter as a physician service, (2) the service provided on an inpatient basis is not included
- 9.21 as part of the cost for inpatient services included in the operating payment rate, and (3) the
- 9.22 service is within the scope of practice of the nurse practitioner's license as a registered
- 9.23 nurse, as defined in section 148.171;
- 9.24 (21) services of a certified public health nurse or a registered nurse practicing in
- 9.25 a public health nursing clinic that is a department of, or that operates under the direct
- 9.26 authority of, a unit of government, if the service is within the scope of practice of the
- 9.27 public health nurse's license as a registered nurse, as defined in section 148.171;
- 9.28 (22) telemedicine consultations, to the extent they are covered under section
- 9.29 256B.0625, subdivision 3b; and
- 9.30 (23) mental health telemedicine and psychiatric consultation as covered under
- 9.31 section 256B.0625, subdivisions 46 and 48.
- 9.32 (ii) Effective October 1, 2003, for a person who is eligible under subdivision 3,
- 9.33 paragraph (a), clause (2), item (ii), general assistance medical care coverage is limited
- 34 to inpatient hospital services, including physician services provided during the inpatient
- 9.35 hospital stay. A \$1,000 deductible is required for each inpatient hospitalization.

10.1 (b) Effective August 1, 2005, sex reassignment surgery is not covered under this
10.2 subdivision.

10.3 (c) In order to contain costs, the commissioner of human services shall select
10.4 vendors of medical care who can provide the most economical care consistent with high
10.5 medical standards and shall where possible contract with organizations on a prepaid
10.6 capitation basis to provide these services. The commissioner shall consider proposals by
10.7 counties and vendors for prepaid health plans, competitive bidding programs, block grants,
10.8 or other vendor payment mechanisms designed to provide services in an economical
10.9 manner or to control utilization, with safeguards to ensure that necessary services are
10.10 provided. Before implementing prepaid programs in counties with a county operated or
10.11 affiliated public teaching hospital or a hospital or clinic operated by the University of
10.12 Minnesota, the commissioner shall consider the risks the prepaid program creates for the
10.13 hospital and allow the county or hospital the opportunity to participate in the program in a
10.14 manner that reflects the risk of adverse selection and the nature of the patients served by
10.15 the hospital, provided the terms of participation in the program are competitive with the
10.16 terms of other participants considering the nature of the population served. Payment for
10.17 services provided pursuant to this subdivision shall be as provided to medical assistance
10.18 vendors of these services under sections 256B.02, subdivision 8, and 256B.0625. For
10.19 payments made during fiscal year 1990 and later years, the commissioner shall consult
10.20 with an independent actuary in establishing prepayment rates, but shall retain final control
10.21 over the rate methodology.

10.22 ~~(d) Recipients eligible under subdivision 3, paragraph (a), shall pay the following~~
10.23 ~~co-payments for services provided on or after October 1, 2003:~~

10.24 ~~(1) \$25 for eyeglasses;~~

10.25 ~~(2) \$25 for nonemergency visits to a hospital-based emergency room;~~

10.26 ~~(3) \$3 per brand-name drug prescription and \$1 per generic drug prescription,~~
10.27 ~~subject to a \$12 per month maximum for prescription drug co-payments. No co-payments~~
10.28 ~~shall apply to antipsychotic drugs when used for the treatment of mental illness, and~~

10.29 ~~(4) 50 percent coinsurance on restorative dental services.~~

10.30 ~~(e) Co-payments shall be limited to one per day per provider for nonpreventive visits,~~
10.31 ~~eyeglasses, and nonemergency visits to a hospital-based emergency room. Recipients of~~
10.32 ~~general assistance medical care are responsible for all co-payments in this subdivision.~~
10.33 ~~The general assistance medical care reimbursement to the provider shall be reduced by~~
10.34 ~~the amount of the co-payment, except that reimbursement for prescription drugs shall not~~
10.35 ~~be reduced once a recipient has reached the \$12 per month maximum for prescription~~
10.36 ~~drug co-payments. The provider collects the co-payment from the recipient. Providers~~

11.1 ~~may not deny services to recipients who are unable to pay the co-payment, except as~~
 11.2 ~~provided in paragraph (f).~~

3 ~~(f) If it is the routine business practice of a provider to refuse service to an individual~~
 11.4 ~~with uncollected debt, the provider may include uncollected co-payments under this~~
 11.5 ~~section. A provider must give advance notice to a recipient with uncollected debt before~~
 11.6 ~~services can be denied.~~

11.7 ~~(g)~~ (d) Any county may, from its own resources, provide medical payments for
 11.8 which state payments are not made.

11.9 ~~(h)~~ (e) Chemical dependency services that are reimbursed under chapter 254B must
 11.10 not be reimbursed under general assistance medical care.

11.11 ~~(i)~~ (f) The maximum payment for new vendors enrolled in the general assistance
 11.12 medical care program after the base year shall be determined from the average usual and
 11.13 customary charge of the same vendor type enrolled in the base year.

11.14 ~~(j)~~ (g) The conditions of payment for services under this subdivision are the same
 11.15 as the conditions specified in rules adopted under chapter 256B governing the medical
 11.16 assistance program, unless otherwise provided by statute or rule.

11.17 ~~(k)~~ (h) Inpatient and outpatient payments shall be reduced by five percent, effective
 11.18 July 1, 2003. This reduction is in addition to the five percent reduction effective July 1,
 11.19 2003, and incorporated by reference in paragraph ~~(i)~~ (f).

11.20 ~~(l)~~ (i) Payments for all other health services except inpatient, outpatient, and
 11.21 pharmacy services shall be reduced by five percent, effective July 1, 2003.

11.22 ~~(m)~~ (j) Payments to managed care plans shall be reduced by five percent for services
 11.23 provided on or after October 1, 2003.

11.24 ~~(n)~~ (k) A hospital receiving a reduced payment as a result of this section may apply
 11.25 the unpaid balance toward satisfaction of the hospital's bad debts.

11.26 ~~(o) Fee-for-service payments for nonpreventive visits shall be reduced by \$3~~
 11.27 ~~for services provided on or after January 1, 2006. For purposes of this subdivision, a~~
 11.28 ~~visit means an episode of service which is required because of a recipient's symptoms,~~
 11.29 ~~diagnosis, or established illness, and which is delivered in an ambulatory setting by~~
 11.30 ~~a physician or physician ancillary, chiropractor, podiatrist, advance practice nurse,~~
 11.31 ~~audiologist, optician, or optometrist.~~

11.32 ~~(p) Payments to managed care plans shall not be increased as a result of the removal~~
 11.33 ~~of the \$3 nonpreventive visit co-payment effective January 1, 2006.~~

11.34 Sec. 6. Minnesota Statutes 2004, section 256J.24, is amended by adding a subdivision
 11.35 to read:

12.1 Subd. 5b. Cost of living increase. The commissioner shall provide a ten percent
12.2 cost of living increase to the cash portion of the transitional standard.

12.3 Sec. 7. APPROPRIATION.

12.4 \$..... is appropriated from the tax relief account under Minnesota Statutes, section
12.5 16A.1522, subdivision 4, for the biennium ending June 30, 2007, to the commissioner of
12.6 human services for the purposes of sections 1 to 4 and 6.

12.7 Sec. 8. REPEALER.

12.8 (a) Minnesota Statutes 2004, sections 256B.0631, subdivisions 2 and 4; 256J.37,
12.9 subdivision 3a; and 256L.04, subdivision 10, are repealed.

12.10 (b) Minnesota Statutes 2005 Supplement, sections 256B.0631, subdivisions 1 and 3;
12.11 and 256J.37, subdivision 3b, are repealed.

12.12 (c) Laws 2005, First Special Session chapter 4, article 3, section 19, is repealed.

256B.0631 MEDICAL ASSISTANCE CO-PAYMENTS.

Subdivision 1. Co-payments. (a) Except as provided in subdivision 2, the medical assistance benefit plan shall include the following co-payments for all recipients, effective for services provided on or after October 1, 2003:

(1) \$3 per nonpreventive visit. For purposes of this subdivision, a visit means an episode of service which is required because of a recipient's symptoms, diagnosis, or established illness, and which is delivered in an ambulatory setting by a physician or physician ancillary, chiropractor, podiatrist, nurse midwife, advanced practice nurse, audiologist, optician, or optometrist;

(2) \$3 for eyeglasses;

(3) \$6 for nonemergency visits to a hospital-based emergency room; and

(4) \$3 per brand-name drug prescription and \$1 per generic drug prescription, subject to a \$12 per month maximum for prescription drug co-payments. No co-payments shall apply to antipsychotic drugs when used for the treatment of mental illness.

(b) Recipients of medical assistance are responsible for all co-payments in this subdivision.

Subd. 2. Exceptions. Co-payments shall be subject to the following exceptions:

(1) children under the age of 21;

(2) pregnant women for services that relate to the pregnancy or any other medical condition that may complicate the pregnancy;

(3) recipients expected to reside for at least 30 days in a hospital, nursing home, or intermediate care facility for the mentally retarded;

(4) recipients receiving hospice care;

(5) 100 percent federally funded services provided by an Indian health service;

(6) emergency services;

(7) family planning services;

(8) services that are paid by Medicare, resulting in the medical assistance program paying for the coinsurance and deductible; and

(9) co-payments that exceed one per day per provider for nonpreventive visits, eyeglasses, and nonemergency visits to a hospital-based emergency room.

Subd. 3. Collection. The medical assistance reimbursement to the provider shall be reduced by the amount of the co-payment, except that reimbursement for prescription drugs shall not be reduced once a recipient has reached the \$12 per month maximum for prescription drug co-payments. The provider collects the co-payment from the recipient. Providers may not deny services to recipients who are unable to pay the co-payment, except as provided in subdivision 4.

Subd. 4. Uncollected debt. If it is the routine business practice of a provider to refuse service to an individual with uncollected debt, the provider may include uncollected co-payments under this section. A provider must give advance notice to a recipient with uncollected debt before services can be denied.

256J.37 TREATMENT OF INCOME AND LUMP SUMS.

Subd. 3a. Rental subsidies; unearned income. (a) Effective July 1, 2003, the county agency shall count \$50 of the value of public and assisted rental subsidies provided through the Department of Housing and Urban Development (HUD) as unearned income to the cash portion of the MFIP grant. The full amount of the subsidy must be counted as unearned income when the subsidy is less than \$50. The income from this subsidy shall be budgeted according to section 256J.34.

(b) The provisions of this subdivision shall not apply to an MFIP assistance unit which includes a participant who is:

(1) age 60 or older;

(2) a caregiver who is suffering from an illness, injury, or incapacity that has been certified by a qualified professional when the illness, injury, or incapacity is expected to continue for more than 30 days and prevents the person from obtaining or retaining employment; or

(3) a caregiver whose presence in the home is required due to the illness or incapacity of another member in the assistance unit, a relative in the household, or a foster child in the household when the illness or incapacity and the need for the participant's presence in the home has been certified by a qualified professional and is expected to continue for more than 30 days.

(c) The provisions of this subdivision shall not apply to an MFIP assistance unit where the parental caregiver is an SSI recipient.

(d) Prior to implementing this provision, the commissioner must identify the MFIP participants subject to this provision and provide written notice to these participants at least 30

APPENDIX

Repealed Minnesota Statutes: 06-6392

days before the first grant reduction. The notice must inform the participant of the basis for the potential grant reduction, the exceptions to the provision, if any, and inform the participant of the steps necessary to claim an exception. A person who is found not to meet one of the exceptions to the provision must be notified and informed of the right to a fair hearing under section 256J.40. The notice must also inform the participant that the participant may be eligible for a rent reduction resulting from a reduction in the MFIP grant and encourage the participant to contact the local housing authority.

Subd. 3b. Treatment of Supplemental Security Income. The county shall reduce the cash portion of the MFIP grant by up to \$125 for an MFIP assistance unit that includes one or more SSI recipients who reside in the household, and who would otherwise be included in the MFIP assistance unit under section 256J.24, subdivision 2, but are excluded solely due to the SSI recipient status under section 256J.24, subdivision 3, paragraph (a), clause (1). If the SSI recipient or recipients receive less than \$125 of SSI, only the amount received shall be used in calculating the MFIP cash assistance payment. This provision does not apply to relative caregivers who could elect to be included in the MFIP assistance unit under section 256J.24, subdivision 4, unless the caregiver's children or stepchildren are included in the MFIP assistance unit.

256L.04 ELIGIBLE PERSONS.

Subd. 10. Citizenship requirements. Eligibility for MinnesotaCare is limited to citizens of the United States, qualified noncitizens, and other persons residing lawfully in the United States as described in section 256B.06, subdivision 4, paragraphs (a) to (e) and (j). Undocumented noncitizens and nonimmigrants are ineligible for MinnesotaCare. For purposes of this subdivision, a nonimmigrant is an individual in one or more of the classes listed in United States Code, title 8, section 1101(a)(15), and an undocumented noncitizen is an individual who resides in the United States without the approval or acquiescence of the Immigration and Naturalization Service.

1.1 Senator moves to amend S.F. No. 3015 as follows:

1.2 Page 11, after line 33, insert:

1.3 "Sec. 6. Minnesota Statutes 2005 Supplement, section 256J.21, subdivision 2,
is amended to read:

1.5 Subd. 2. **Income exclusions.** The following must be excluded in determining a
1.6 family's available income:

1.7 (1) payments for basic care, difficulty of care, and clothing allowances received for
1.8 providing family foster care to children or adults under Minnesota Rules, parts 9555.5050
1.9 to 9555.6265, 9560.0521, and 9560.0650 to 9560.0655, and payments received and used
1.10 for care and maintenance of a third-party beneficiary who is not a household member;

1.11 (2) reimbursements for employment training received through the Workforce
1.12 Investment Act of 1998, United States Code, title 20, chapter 73, section 9201;

1.13 (3) reimbursement for out-of-pocket expenses incurred while performing volunteer
1.14 services, jury duty, employment, or informal carpooling arrangements directly related to
1.15 employment;

1.16 (4) all educational assistance, except the county agency must count graduate student
1.17 teaching assistantships, fellowships, and other similar paid work as earned income and,
1.18 after allowing deductions for any unmet and necessary educational expenses, shall
1.19 count scholarships or grants awarded to graduate students that do not require teaching
1.20 or research as unearned income;

1.21 (5) loans, regardless of purpose, from public or private lending institutions,
1.22 governmental lending institutions, or governmental agencies;

1.23 (6) loans from private individuals, regardless of purpose, provided an applicant or
1.24 participant documents that the lender expects repayment;

(7)(i) state income tax refunds; and

1.26 (ii) federal income tax refunds;

1.27 (8)(i) federal earned income credits;

- 2.1 (ii) Minnesota working family credits;
- 2.2 (iii) state homeowners and renters credits under chapter 290A; and
- 2.3 (iv) federal or state tax rebates;
- 2.4 (9) funds received for reimbursement, replacement, or rebate of personal or real
- 2.5 property when these payments are made by public agencies, awarded by a court, solicited
- 2.6 through public appeal, or made as a grant by a federal agency, state or local government,
- 2.7 or disaster assistance organizations, subsequent to a presidential declaration of disaster;
- 2.8 (10) the portion of an insurance settlement that is used to pay medical, funeral, and
- 2.9 burial expenses, or to repair or replace insured property;
- 2.10 (11) reimbursements for medical expenses that cannot be paid by medical assistance;
- 2.11 (12) payments by a vocational rehabilitation program administered by the state
- 2.12 under chapter 268A, except those payments that are for current living expenses;
- 2.13 (13) in-kind income, including any payments directly made by a third party to a
- 2.14 provider of goods and services;
- 2.15 (14) assistance payments to correct underpayments, but only for the month in which
- 2.16 the payment is received;
- 2.17 (15) payments for short-term emergency needs under section 256J.626, subdivision
- 2.18 2;
- 2.19 (16) funeral and cemetery payments as provided by section 256.935;
- 2.20 (17) nonrecurring cash gifts of \$30 or less, not exceeding \$30 per participant in
- 2.21 a calendar month;
- 2.22 (18) any form of energy assistance payment made through Public Law 97-35,
- 2.23 Low-Income Home Energy Assistance Act of 1981, payments made directly to energy
- 2.24 providers by other public and private agencies, and any form of credit or rebate payment
- 2.25 issued by energy providers;
- 2.26 (19) Supplemental Security Income (SSI), including retroactive SSI payments and
- 2.27 other income of an SSI recipient, ~~except as described in section 256J.37, subdivision 3b;~~
- 2.28 (20) Minnesota supplemental aid, including retroactive payments;
- 2.29 (21) proceeds from the sale of real or personal property;
- 2.30 (22) state adoption assistance payments under section 259.67, and up to an equal
- 2.31 amount of county adoption assistance payments;
- 2.32 (23) state-funded family subsidy program payments made under section 252.32 to
- 2.33 help families care for children with mental retardation or related conditions, consumer
- 2.34 support grant funds under section 256.476, and resources and services for a disabled
- 2.35 household member under one of the home and community-based waiver services
- 2.36 programs under chapter 256B;

- 3.1 (24) interest payments and dividends from property that is not excluded from and
3.2 that does not exceed the asset limit;
- (25) rent rebates;
- 3.4 (26) income earned by a minor caregiver, minor child through age 6, or a minor
3.5 child who is at least a half-time student in an approved elementary or secondary education
3.6 program;
- 3.7 (27) income earned by a caregiver under age 20 who is at least a half-time student in
3.8 an approved elementary or secondary education program;
- 3.9 (28) MFIP child care payments under section 119B.05;
- 3.10 (29) all other payments made through MFIP to support a caregiver's pursuit of
3.11 greater economic stability;
- 3.12 (30) income a participant receives related to shared living expenses;
- (31) reverse mortgages;
- 3.14 (32) benefits provided by the Child Nutrition Act of 1966, United States Code, title
3.15 42, chapter 13A, sections 1771 to 1790;
- 3.16 (33) benefits provided by the women, infants, and children (WIC) nutrition program,
3.17 United States Code, title 42, chapter 13A, section 1786;
- 3.18 (34) benefits from the National School Lunch Act, United States Code, title 42,
3.19 chapter 13, sections 1751 to 1769e;
- 3.20 (35) relocation assistance for displaced persons under the Uniform Relocation
3.21 Assistance and Real Property Acquisition Policies Act of 1970, United States Code, title
3.22 42, chapter 61, subchapter II, section 4636, or the National Housing Act, United States
Code, title 12, chapter 13, sections 1701 to 1750jj;
- 3.24 (36) benefits from the Trade Act of 1974, United States Code, title 19, chapter
3.25 12, part 2, sections 2271 to 2322;
- 3.26 (37) war reparations payments to Japanese Americans and Aleuts under United
3.27 States Code, title 50, sections 1989 to 1989d;
- 3.28 (38) payments to veterans or their dependents as a result of legal settlements
3.29 regarding Agent Orange or other chemical exposure under Public Law 101-239, section
3.30 10405, paragraph (a)(2)(E);
- 3.31 (39) income that is otherwise specifically excluded from MFIP consideration in
3.32 federal law, state law, or federal regulation;
- 3.33 (40) security and utility deposit refunds;
- (41) American Indian tribal land settlements excluded under Public Laws 98-123,
3.35 98-124, and 99-377 to the Mississippi Band Chippewa Indians of White Earth, Leech

4.1 Lake, and Mille Lacs reservations and payments to members of the White Earth Band,
4.2 under United States Code, title 25, chapter 9, section 331, and chapter 16, section 1407;

4.3 (42) all income of the minor parent's parents and stepparents when determining the
4.4 grant for the minor parent in households that include a minor parent living with parents or
4.5 stepparents on MFIP with other children;

4.6 (43) income of the minor parent's parents and stepparents equal to 200 percent of the
4.7 federal poverty guideline for a family size not including the minor parent and the minor
4.8 parent's child in households that include a minor parent living with parents or stepparents
4.9 not on MFIP when determining the grant for the minor parent. The remainder of income is
4.10 deemed as specified in section 256J.37, subdivision 1b;

4.11 (44) payments made to children eligible for relative custody assistance under section
4.12 257.85;

4.13 (45) vendor payments for goods and services made on behalf of a client unless the
4.14 client has the option of receiving the payment in cash; and

4.15 (46) the principal portion of a contract for deed payment."

4.16 Page 12, line 6, delete "4 and 6" and insert "6 and 8"

**Senate Counsel, Research,
and Fiscal Analysis**

G-17 STATE CAPITOL
75 REV. DR. MARTIN LUTHER KING, JR. BLVD.
ST. PAUL, MN 55155-1606
(651) 296-4791
FAX: (651) 296-7747
JO ANNE ZOFF SELLNER
DIRECTOR

Senate

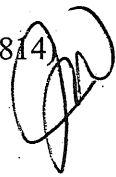
State of Minnesota

**S.F. No. 3016 - Welfare Reform/Foreign Operating
Corporation Tax Bill**

Author: Senator Linda Berglin

Prepared by: Joan White, Senate Counsel (651/296-3814)

Date: March 13, 2006



Article 1 - Welfare Reform Article

Section 1 (Minnesota Statutes 2005 Supplement, section 119B.09, subdivision 1) changes the eligibility for child care assistance, allowing households that have an income less than or equal to 200 percent of the federal poverty guidelines, instead of 175 percent, to be eligible for child care assistance.

Section 2 (proposed coding, section 119B.095) reinstates the child care co-payment schedule that was effective prior to the 2003 legislative session.

Section 3 (Minnesota Statutes 2004, section 119B.13, adding subdivision 8) provides a two percent cost of living increase to child care provider rates.

Section 4 (Minnesota Statutes 2005 Supplement, section 256D.03, subdivision 3) reinstates emergency services under the general assistance medical care (GAMC) program for undocumented noncitizens and nonimmigrants.

Section 5 (Minnesota Statutes 2005 Supplement, section 256D.03, subdivision 4) eliminates GAMC co-payments

Section 6 (Minnesota Statutes 2005 Supplement, section 256J.21, subdivision 2) strikes a cross reference to a provision that is being repealed.

Section 7 (Minnesota Statutes 2004, section 256J.24, adding subdivision 5b) provides a ten percent cost of living increase to the MFIP transitional standard.

Section 8 provides repealers.

Paragraph (a), Minnesota Statutes, section 256B.0631, subdivisions 2 and 4, repeals Medical Assistance co-payments; section 256J.37, subdivision 3a, repeals the MFIP housing penalty; and section 256L.04, subdivision 10, repeals MinnesotaCare ineligibility provisions for noncitizens..

Paragraph (b), Minnesota Statutes, section 256B.0631, subdivisions 1 and 3, repeal Medical Assistance co-payments; and section 256J.37, subdivision 3b, repeals the MFIP SSI penalty.

Paragraph (c) repeals the existing child care fee schedule.

Article 2 - Tax Article

Article 2 contains tax provisions related to foreign operating corporations.

JW:mvm

Senators Berglin; Pogemiller; Johnson, D.E.; Koering and Dille introduced-
S.F. No. 3016: Referred to the Committee on Finance.

A bill for an act

1.2 relating to human services; making changes to child care provider rates and
1.3 parent fees; eliminating certain health care co-pays; increasing the MFIP
1.4 transitional standard; reinstating health care benefits for certain noncitizens;
1.5 repealing MFIP housing and SSI penalties; modifying foreign operating
1.6 corporation tax provision; appropriating money from the tax relief account;
1.7 amending Minnesota Statutes 2004, sections 119B.13, by adding a subdivision;
1.8 256J.24, by adding a subdivision; 290.34, subdivision 1; Minnesota Statutes
1.9 2005 Supplement, sections 119B.09, subdivision 1; 256D.03, subdivisions 3,
1.10 4; 256J.21, subdivision 2; 289A.38, subdivision 6; 290.01, subdivisions 6b,
1.11 19c, 19d; proposing coding for new law in Minnesota Statutes, chapter 119B;
1.12 repealing Minnesota Statutes 2004, sections 256B.0631, subdivisions 2, 4;
1.13 256J.37, subdivision 3a; 256L.04, subdivision 10; Minnesota Statutes 2005
1.14 Supplement, sections 256B.0631, subdivisions 1, 3; 256J.37, subdivision 3b;
1.15 Laws 2005, First Special Session chapter 4, article 3, section 19.

1.16 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.17 **ARTICLE 1**

1.18 **WELFARE REFORM ARTICLE**

1.19 Section 1. Minnesota Statutes 2005 Supplement, section 119B.09, subdivision 1, is
1.20 amended to read:

1.21 Subdivision 1. **General eligibility requirements for all applicants for child**
1.22 **care assistance.** (a) Child care services must be available to families who need child
1.23 care to find or keep employment or to obtain the training or education necessary to find
1.24 employment and who:

1.25 (1) have household income less than or equal to 250 percent of the federal poverty
1.26 guidelines, adjusted for family size, and meet the requirements of section 119B.05;
1.27 receive MFIP assistance; and are participating in employment and training services under
1.28 chapter 256J or 256K; or

Senators Berglin; Pogemiller; Johnson, D.E.; Koering and Dille introduced—
S.F. No. 3016: Referred to the Committee on Finance.

A bill for an act

1.2 relating to human services; making changes to child care provider rates and
1.3 parent fees; eliminating certain health care co-pays; increasing the MFIP
1.4 transitional standard; reinstating health care benefits for certain noncitizens;
1.5 repealing MFIP housing and SSI penalties; modifying foreign operating
1.6 corporation tax provision; appropriating money from the tax relief account;
1.7 amending Minnesota Statutes 2004, sections 119B.13, by adding a subdivision;
1.8 256J.24, by adding a subdivision; 290.34, subdivision 1; Minnesota Statutes
1.9 2005 Supplement, sections 119B.09, subdivision 1; 256D.03, subdivisions 3,
1.10 4; 256J.21, subdivision 2; 289A.38, subdivision 6; 290.01, subdivisions 6b,
1.11 19c, 19d; proposing coding for new law in Minnesota Statutes, chapter 119B;
1.12 repealing Minnesota Statutes 2004, sections 256B.0631, subdivisions 2, 4;
1.13 256J.37, subdivision 3a; 256L.04, subdivision 10; Minnesota Statutes 2005
1.14 Supplement, sections 256B.0631, subdivisions 1, 3; 256J.37, subdivision 3b;
1.15 Laws 2005, First Special Session chapter 4, article 3, section 19.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

ARTICLE 1

WELFARE REFORM ARTICLE

Section 1. Minnesota Statutes 2005 Supplement, section 119B.09, subdivision 1, is amended to read:

Subdivision 1. **General eligibility requirements for all applicants for child care assistance.** (a) Child care services must be available to families who need child care to find or keep employment or to obtain the training or education necessary to find employment and who:

- (1) have household income less than or equal to 250 percent of the federal poverty guidelines, adjusted for family size, and meet the requirements of section 119B.05;
- receive MFIP assistance; and are participating in employment and training services under chapter 256J or 256K; or

2.1 (2) have household income less than or equal to ~~175~~ 200 percent of the federal
 2.2 poverty guidelines, adjusted for family size, at program entry and less than 250 percent of
 2.3 the federal poverty guidelines, adjusted for family size, at program exit.

2.4 (b) Child care services must be made available as in-kind services.

2.5 (c) All applicants for child care assistance and families currently receiving child care
 2.6 assistance must be assisted and required to cooperate in establishment of paternity and
 2.7 enforcement of child support obligations for all children in the family as a condition
 2.8 of program eligibility. For purposes of this section, a family is considered to meet the
 2.9 requirement for cooperation when the family complies with the requirements of section
 2.10 256.741.

2.11 **Sec. 2. [119B.095] CO-PAYMENT FEE FOR FAMILIES WITH ANNUAL**
 2.12 **INCOMES THAT EXCEED THE FEDERAL POVERTY LEVEL.**

2.13 (a) The monthly family co-payment fee for families with annual incomes greater than
 2.14 the federal poverty level, adjusted for family size, is determined in paragraphs (b) and (c):

2.15 (b) The family's annual gross income is converted into a percentage of state median
 2.16 income (SMI) for a family of four, adjusted for family size, by dividing the family's
 2.17 annual gross income by 100 percent of the SMI for a family of four, adjusted for family
 2.18 size. The percentage must be carried out to the nearest 100th of a percent.

2.19 (c) If the family's annual gross income is less than or equal to 75 percent of the
 2.20 SMI for a family of four, adjusted for family size, the family's monthly co-payment fee
 2.21 is the fixed percentage established for the family's income range in clauses (1) to (60),
 2.22 multiplied by the highest possible income within that income range, divided by 12, and
 2.23 rounded to the nearest whole dollar.

	<u>Percent of SMI</u>	<u>Percent</u>
2.24		
2.25	(1) <u>less than 35.01</u>	<u>2.20</u>
2.26	(2) <u>35.01 to 42.00</u>	<u>2.70</u>
2.27	(3) <u>42.01 to 43.00</u>	<u>3.75</u>
2.28	(4) <u>43.01 to 44.00</u>	<u>4.00</u>
2.29	(5) <u>44.01 to 45.00</u>	<u>4.25</u>
2.30	(6) <u>45.01 to 46.00</u>	<u>4.50</u>
2.31	(7) <u>46.01 to 47.00</u>	<u>4.75</u>
2.32	(8) <u>47.01 to 48.00</u>	<u>5.00</u>
2.33	(9) <u>48.01 to 49.00</u>	<u>5.25</u>

3.1	(10)	<u>49.01 to 50.00</u>	<u>5.50</u>
	(11)	<u>50.01 to 50.50</u>	<u>5.75</u>
3.3	(12)	<u>50.51 to 51.00</u>	<u>6.00</u>
3.4	(13)	<u>51.01 to 51.50</u>	<u>6.25</u>
3.5	(14)	<u>51.51 to 52.00</u>	<u>6.50</u>
3.6	(15)	<u>52.01 to 52.50</u>	<u>6.75</u>
3.7	(16)	<u>52.51 to 53.00</u>	<u>7.00</u>
3.8	(17)	<u>53.01 to 53.50</u>	<u>7.25</u>
3.9	(18)	<u>53.51 to 54.00</u>	<u>7.50</u>
3.10	(19)	<u>54.01 to 54.50</u>	<u>7.75</u>
	(20)	<u>54.51 to 55.00</u>	<u>8.00</u>
3.12	(21)	<u>55.01 to 55.50</u>	<u>8.30</u>
3.13	(22)	<u>55.51 to 56.00</u>	<u>8.60</u>
3.14	(23)	<u>56.01 to 56.50</u>	<u>8.90</u>
3.15	(24)	<u>56.51 to 57.00</u>	<u>9.20</u>
3.16	(25)	<u>57.01 to 57.50</u>	<u>9.50</u>
3.17	(26)	<u>57.51 to 58.00</u>	<u>9.80</u>
3.18	(27)	<u>58.01 to 58.50</u>	<u>10.10</u>
	(28)	<u>58.51 to 59.00</u>	<u>10.40</u>
3.20	(29)	<u>59.01 to 59.50</u>	<u>10.70</u>
3.21	(30)	<u>59.51 to 60.00</u>	<u>11.00</u>
3.22	(31)	<u>60.01 to 60.50</u>	<u>11.30</u>
3.23	(32)	<u>60.51 to 61.00</u>	<u>11.60</u>
3.24	(33)	<u>61.01 to 61.50</u>	<u>11.90</u>
3.25	(34)	<u>61.51 to 62.00</u>	<u>12.20</u>
3.26	(35)	<u>62.01 to 62.50</u>	<u>12.50</u>
3.27	(36)	<u>62.51 to 63.00</u>	<u>12.80</u>
	(37)	<u>63.01 to 63.50</u>	<u>13.10</u>
3.29	(38)	<u>63.51 to 64.00</u>	<u>13.40</u>

4.1	<u>(39)</u>	<u>64.01 to 64.50</u>	<u>13.70</u>
4.2	<u>(40)</u>	<u>64.51 to 65.00</u>	<u>14.00</u>
4.3	<u>(41)</u>	<u>65.01 to 65.50</u>	<u>14.30</u>
4.4	<u>(42)</u>	<u>65.51 to 66.00</u>	<u>14.60</u>
4.5	<u>(43)</u>	<u>66.01 to 66.50</u>	<u>14.90</u>
4.6	<u>(44)</u>	<u>66.51 to 67.00</u>	<u>15.20</u>
4.7	<u>(45)</u>	<u>67.01 to 67.50</u>	<u>15.50</u>
4.8	<u>(46)</u>	<u>67.51 to 68.00</u>	<u>15.80</u>
4.9	<u>(47)</u>	<u>68.01 to 68.50</u>	<u>16.10</u>
4.10	<u>(48)</u>	<u>68.51 to 69.00</u>	<u>16.40</u>
4.11	<u>(49)</u>	<u>69.01 to 69.50</u>	<u>16.70</u>
4.12	<u>(50)</u>	<u>69.51 to 70.00</u>	<u>17.00</u>
4.13	<u>(51)</u>	<u>70.01 to 70.50</u>	<u>17.30</u>
4.14	<u>(52)</u>	<u>70.51 to 71.00</u>	<u>17.60</u>
4.15	<u>(53)</u>	<u>71.01 to 71.50</u>	<u>17.90</u>
4.16	<u>(54)</u>	<u>71.51 to 72.00</u>	<u>18.20</u>
4.17	<u>(55)</u>	<u>72.01 to 72.50</u>	<u>18.50</u>
4.18	<u>(56)</u>	<u>72.51 to 73.00</u>	<u>18.80</u>
4.19	<u>(57)</u>	<u>73.01 to 73.50</u>	<u>19.10</u>
4.20	<u>(58)</u>	<u>73.51 to 74.00</u>	<u>19.40</u>
4.21	<u>(59)</u>	<u>74.01 to 74.50</u>	<u>19.70</u>
4.22	<u>(60)</u>	<u>74.51 to 75.00</u>	<u>20.00</u>

4.23 Sec. 3. Minnesota Statutes 2004, section 119B.13, is amended by adding a subdivision
4.24 to read:

4.25 Subd. 8. Cost of living increase. In addition to the provider rates specified under
4.26 this section, the commissioner shall provide a two percent cost of living rate increase to
4.27 providers.

4.28 Sec. 4. Minnesota Statutes 2005 Supplement, section 256D.03, subdivision 3, is
4.29 amended to read:

5.1 Subd. 3. **General assistance medical care; eligibility.** (a) General assistance
5.2 medical care may be paid for any person who is not eligible for medical assistance under
chapter 256B, including eligibility for medical assistance based on a spenddown of excess
5.4 income according to section 256B.056, subdivision 5, or MinnesotaCare as defined in
5.5 paragraph (b), except as provided in paragraph (c), and:

5.6 (1) who is receiving assistance under section 256D.05, except for families with
5.7 children who are eligible under Minnesota family investment program (MFIP), or who is
5.8 having a payment made on the person's behalf under sections 256I.01 to 256I.06; or

5.9 (2) who is a resident of Minnesota; and

5.10 (i) who has gross countable income not in excess of 75 percent of the federal poverty
5.11 guidelines for the family size, using a six-month budget period and whose equity in assets
5.12 is not in excess of \$1,000 per assistance unit. Exempt assets, the reduction of excess
5.13 assets, and the waiver of excess assets must conform to the medical assistance program in
5.14 section 256B.056, subdivision 3, with the following exception: the maximum amount of
5.15 undistributed funds in a trust that could be distributed to or on behalf of the beneficiary by
5.16 the trustee, assuming the full exercise of the trustee's discretion under the terms of the
5.17 trust, must be applied toward the asset maximum;

5.18 (ii) who has gross countable income above 75 percent of the federal poverty
5.19 guidelines but not in excess of 175 percent of the federal poverty guidelines for the
5.20 family size, using a six-month budget period, whose equity in assets is not in excess
5.21 of the limits in section 256B.056, subdivision 3c, and who applies during an inpatient
5.22 hospitalization; or

5.23 (iii) the commissioner shall adjust the income standards under this section each July
5.24 1 by the annual update of the federal poverty guidelines following publication by the
5.25 United States Department of Health and Human Services.

5.26 (b) Effective for applications and renewals processed on or after September 1, 2006,
5.27 general assistance medical care may not be paid for applicants or recipients who are adults
5.28 with dependent children under 21 whose gross family income is equal to or less than 275
5.29 percent of the federal poverty guidelines who are not described in paragraph (e).

5.30 (c) Effective for applications and renewals processed on or after September 1, 2006,
5.31 general assistance medical care may be paid for applicants and recipients who meet all
5.32 eligibility requirements of paragraph (a), clause (2), item (i), for a temporary period
5.33 beginning the date of application. Immediately following approval of general assistance
5.34 medical care, enrollees shall be enrolled in MinnesotaCare under section 256L.04,
5.35 subdivision 7, with covered services as provided in section 256L.03 for the rest of the
5.36 six-month eligibility period, until their six-month renewal.

7.1 (i) County agencies are authorized to use all automated databases containing
7.2 information regarding recipients' or applicants' income in order to determine eligibility
7.3 for general assistance medical care or MinnesotaCare. Such use shall be considered
7.4 sufficient in order to determine eligibility and premium payments by the county agency.

7.5 (j) General assistance medical care is not available for a person in a correctional
7.6 facility unless the person is detained by law for less than one year in a county correctional
7.7 or detention facility as a person accused or convicted of a crime, or admitted as an
7.8 inpatient to a hospital on a criminal hold order, and the person is a recipient of general
7.9 assistance medical care at the time the person is detained by law or admitted on a criminal
7.10 hold order and as long as the person continues to meet other eligibility requirements
7.11 of this subdivision.

7.12 (k) General assistance medical care is not available for applicants or recipients who
7.13 do not cooperate with the county agency to meet the requirements of medical assistance.

7.14 (l) In determining the amount of assets of an individual eligible under paragraph
7.15 (a), clause (2), item (i), there shall be included any asset or interest in an asset, including
7.16 an asset excluded under paragraph (a), that was given away, sold, or disposed of for
7.17 less than fair market value within the 60 months preceding application for general
7.18 assistance medical care or during the period of eligibility. Any transfer described in this
7.19 paragraph shall be presumed to have been for the purpose of establishing eligibility for
7.20 general assistance medical care, unless the individual furnishes convincing evidence to
7.21 establish that the transaction was exclusively for another purpose. For purposes of this
7.22 paragraph, the value of the asset or interest shall be the fair market value at the time it
7.23 was given away, sold, or disposed of, less the amount of compensation received. For any
7.24 uncompensated transfer, the number of months of ineligibility, including partial months,
7.25 shall be calculated by dividing the uncompensated transfer amount by the average monthly
7.26 per person payment made by the medical assistance program to skilled nursing facilities
7.27 for the previous calendar year. The individual shall remain ineligible until this fixed period
7.28 has expired. The period of ineligibility may exceed 30 months, and a reapplication for
7.29 benefits after 30 months from the date of the transfer shall not result in eligibility unless
7.30 and until the period of ineligibility has expired. The period of ineligibility begins in the
7.31 month the transfer was reported to the county agency, or if the transfer was not reported,
7.32 the month in which the county agency discovered the transfer, whichever comes first. For
7.33 applicants, the period of ineligibility begins on the date of the first approved application.

7.34 (m) When determining eligibility for any state benefits under this subdivision,
7.35 the income and resources of all noncitizens shall be deemed to include their sponsor's
7.36 income and resources as defined in the Personal Responsibility and Work Opportunity

8.1 Reconciliation Act of 1996, title IV, Public Law 104-193, sections 421 and 422, and
8.2 subsequently set out in federal rules.

8.3 (n) (1) An undocumented noncitizens and nonimmigrants are noncitizen or a
8.4 nonimmigrant is ineligible for general assistance medical care other than emergency
8.5 services. For purposes of this subdivision, a nonimmigrant is an individual in one or
8.6 more of the classes listed in United States Code, title 8, section 1101(a)(15), and an
8.7 undocumented noncitizen is an individual who resides in the United States without the
8.8 approval or acquiescence of the Immigration and Naturalization Service.

8.9 (2) This paragraph does not apply to a child under age 18; to a Cuban or Haitian
8.10 entrant as defined in Public Law 96-422, section 501(e)(1) or (2)(a); or to a noncitizen
8.11 who is aged, blind, or disabled as defined in Code of Federal Regulations, title 42,
8.12 sections 435.520, 435.530, 435.531, 435.540, and 435.541, who cooperates with United
8.13 States Citizenship and Immigration Services to pursue any applicable immigration status,
8.14 including citizenship, that would qualify the individual for medical assistance with federal
8.15 financial participation.

8.16 (3) For purposes of this paragraph, "emergency services" has the meaning given in
8.17 Code of Federal Regulations, title 42, section 440.255(b)(1), except that it also means
8.18 services rendered because of suspected or actual pesticide poisoning.

8.19 (o) Notwithstanding any other provision of law, a noncitizen who is ineligible for
8.20 medical assistance due to the deeming of a sponsor's income and resources, is ineligible
8.21 for general assistance medical care.

8.22 ~~(p) Effective July 1, 2003, general assistance medical care emergency services end.~~

8.23 Sec. 5. Minnesota Statutes 2005 Supplement, section 256D.03, subdivision 4, is
8.24 amended to read:

8.25 Subd. 4. **General assistance medical care; services.** (a)(i) For a person who is
8.26 eligible under subdivision 3, paragraph (a), clause (2), item (i), general assistance medical
8.27 care covers, except as provided in paragraph (c):

8.28 (1) inpatient hospital services;

8.29 (2) outpatient hospital services;

8.30 (3) services provided by Medicare certified rehabilitation agencies;

8.31 (4) prescription drugs and other products recommended through the process
8.32 established in section 256B.0625, subdivision 13;

8.33 (5) equipment necessary to administer insulin and diagnostic supplies and equipment
8.34 for diabetics to monitor blood sugar level;

8.35 (6) eyeglasses and eye examinations provided by a physician or optometrist;

- 9.1 (7) hearing aids;
- 9.2 (8) prosthetic devices;
- 9.3 (9) laboratory and X-ray services;
- 9.4 (10) physician's services;
- 9.5 (11) medical transportation except special transportation;
- 9.6 (12) chiropractic services as covered under the medical assistance program;
- 9.7 (13) podiatric services;
- 9.8 (14) dental services as covered under the medical assistance program;
- 9.9 (15) outpatient services provided by a mental health center or clinic that is under
9.10 contract with the county board and is established under section 245.62;
- 9.11 (16) day treatment services for mental illness provided under contract with the
9.12 county board;
- 9.13 (17) prescribed medications for persons who have been diagnosed as mentally ill as
9.14 necessary to prevent more restrictive institutionalization;
- 9.15 (18) psychological services, medical supplies and equipment, and Medicare
9.16 premiums, coinsurance and deductible payments;
- 9.17 (19) medical equipment not specifically listed in this paragraph when the use of
9.18 the equipment will prevent the need for costlier services that are reimbursable under
9.19 this subdivision;
- 9.20 (20) services performed by a certified pediatric nurse practitioner, a certified family
9.21 nurse practitioner, a certified adult nurse practitioner, a certified obstetric/gynecological
9.22 nurse practitioner, a certified neonatal nurse practitioner, or a certified geriatric nurse
9.23 practitioner in independent practice, if (1) the service is otherwise covered under this
9.24 chapter as a physician service, (2) the service provided on an inpatient basis is not included
9.25 as part of the cost for inpatient services included in the operating payment rate, and (3) the
9.26 service is within the scope of practice of the nurse practitioner's license as a registered
9.27 nurse, as defined in section 148.171;
- 9.28 (21) services of a certified public health nurse or a registered nurse practicing in
9.29 a public health nursing clinic that is a department of, or that operates under the direct
9.30 authority of, a unit of government, if the service is within the scope of practice of the
9.31 public health nurse's license as a registered nurse, as defined in section 148.171;
- 9.32 (22) telemedicine consultations, to the extent they are covered under section
9.33 256B.0625, subdivision 3b; and
- 9.34 (23) mental health telemedicine and psychiatric consultation as covered under
9.35 section 256B.0625, subdivisions 46 and 48.

10.1 (ii) Effective October 1, 2003, for a person who is eligible under subdivision 3,
10.2 paragraph (a), clause (2), item (ii), general assistance medical care coverage is limited
10.3 to inpatient hospital services, including physician services provided during the inpatient
10.4 hospital stay. A \$1,000 deductible is required for each inpatient hospitalization.

10.5 (b) Effective August 1, 2005, sex reassignment surgery is not covered under this
10.6 subdivision.

10.7 (c) In order to contain costs, the commissioner of human services shall select
10.8 vendors of medical care who can provide the most economical care consistent with high
10.9 medical standards and shall where possible contract with organizations on a prepaid
10.10 capitation basis to provide these services. The commissioner shall consider proposals by
10.11 counties and vendors for prepaid health plans, competitive bidding programs, block grants,
10.12 or other vendor payment mechanisms designed to provide services in an economical
10.13 manner or to control utilization, with safeguards to ensure that necessary services are
10.14 provided. Before implementing prepaid programs in counties with a county operated or
10.15 affiliated public teaching hospital or a hospital or clinic operated by the University of
10.16 Minnesota, the commissioner shall consider the risks the prepaid program creates for the
10.17 hospital and allow the county or hospital the opportunity to participate in the program in a
10.18 manner that reflects the risk of adverse selection and the nature of the patients served by
10.19 the hospital, provided the terms of participation in the program are competitive with the
10.20 terms of other participants considering the nature of the population served. Payment for
10.21 services provided pursuant to this subdivision shall be as provided to medical assistance
10.22 vendors of these services under sections 256B.02, subdivision 8, and 256B.0625. For
10.23 payments made during fiscal year 1990 and later years, the commissioner shall consult
10.24 with an independent actuary in establishing prepayment rates, but shall retain final control
10.25 over the rate methodology.

10.26 ~~(d) Recipients eligible under subdivision 3, paragraph (a), shall pay the following~~
10.27 ~~co-payments for services provided on or after October 1, 2003:~~

10.28 ~~(1) \$25 for eyeglasses;~~

10.29 ~~(2) \$25 for nonemergency visits to a hospital-based emergency room;~~

10.30 ~~(3) \$3 per brand-name drug prescription and \$1 per generic drug prescription,~~
10.31 ~~subject to a \$12 per month maximum for prescription drug co-payments. No co-payments~~
10.32 ~~shall apply to antipsychotic drugs when used for the treatment of mental illness; and~~

10.33 ~~(4) 50 percent coinsurance on restorative dental services;~~

10.34 ~~(e) Co-payments shall be limited to one per day per provider for nonpreventive visits;~~
10.35 ~~eyeglasses, and nonemergency visits to a hospital-based emergency room. Recipients of~~
10.36 ~~general assistance medical care are responsible for all co-payments in this subdivision.~~

11.1 ~~The general assistance medical care reimbursement to the provider shall be reduced by~~
 11.2 ~~the amount of the co-payment, except that reimbursement for prescription drugs shall not~~
 11.3 ~~be reduced once a recipient has reached the \$12 per month maximum for prescription~~
 11.4 ~~drug co-payments. The provider collects the co-payment from the recipient. Providers~~
 11.5 ~~may not deny services to recipients who are unable to pay the co-payment, except as~~
 11.6 ~~provided in paragraph (f).~~

11.7 ~~(f) If it is the routine business practice of a provider to refuse service to an individual~~
 11.8 ~~with uncollected debt, the provider may include uncollected co-payments under this~~
 11.9 ~~section. A provider must give advance notice to a recipient with uncollected debt before~~
 11.10 ~~services can be denied.~~

11.11 ~~(g) (d)~~ Any county may, from its own resources, provide medical payments for
 11.12 which state payments are not made.

11.13 ~~(h) (e)~~ Chemical dependency services that are reimbursed under chapter 254B must
 11.14 not be reimbursed under general assistance medical care.

11.15 ~~(i) (f)~~ The maximum payment for new vendors enrolled in the general assistance
 11.16 medical care program after the base year shall be determined from the average usual and
 11.17 customary charge of the same vendor type enrolled in the base year.

11.18 ~~(j) (g)~~ The conditions of payment for services under this subdivision are the same
 11.19 as the conditions specified in rules adopted under chapter 256B governing the medical
 11.20 assistance program, unless otherwise provided by statute or rule.

11.21 ~~(k) (h)~~ Inpatient and outpatient payments shall be reduced by five percent, effective
 11.22 July 1, 2003. This reduction is in addition to the five percent reduction effective July 1,
 11.23 2003, and incorporated by reference in paragraph ~~(i) (f)~~.

11.24 ~~(l) (i)~~ Payments for all other health services except inpatient, outpatient, and
 11.25 pharmacy services shall be reduced by five percent, effective July 1, 2003.

11.26 ~~(m) (j)~~ Payments to managed care plans shall be reduced by five percent for services
 11.27 provided on or after October 1, 2003.

11.28 ~~(n) (k)~~ A hospital receiving a reduced payment as a result of this section may apply
 11.29 the unpaid balance toward satisfaction of the hospital's bad debts.

11.30 ~~(o) Fee-for-service payments for nonpreventive visits shall be reduced by \$3~~
 11.31 ~~for services provided on or after January 1, 2006. For purposes of this subdivision, a~~
 11.32 ~~visit means an episode of service which is required because of a recipient's symptoms,~~
 11.33 ~~diagnosis, or established illness, and which is delivered in an ambulatory setting by~~
 11.34 ~~a physician or physician ancillary, chiropractor, podiatrist, advance practice nurse,~~
 11.35 ~~audiologist, optician, or optometrist.~~

12.1 ~~(p) Payments to managed care plans shall not be increased as a result of the removal~~
12.2 ~~of the \$3 nonpreventive visit co-payment effective January 1, 2006.~~

12.3 Sec. 6. Minnesota Statutes 2005 Supplement, section 256J.21, subdivision 2, is
12.4 amended to read:

12.5 Subd. 2. **Income exclusions.** The following must be excluded in determining a
12.6 family's available income:

12.7 (1) payments for basic care, difficulty of care, and clothing allowances received for
12.8 providing family foster care to children or adults under Minnesota Rules, parts 9555.5050
12.9 to 9555.6265, 9560.0521, and 9560.0650 to 9560.0655, and payments received and used
12.10 for care and maintenance of a third-party beneficiary who is not a household member;

12.11 (2) reimbursements for employment training received through the Workforce
12.12 Investment Act of 1998, United States Code, title 20, chapter 73, section 9201;

12.13 (3) reimbursement for out-of-pocket expenses incurred while performing volunteer
12.14 services, jury duty, employment, or informal carpooling arrangements directly related to
12.15 employment;

12.16 (4) all educational assistance, except the county agency must count graduate student
12.17 teaching assistantships, fellowships, and other similar paid work as earned income and,
12.18 after allowing deductions for any unmet and necessary educational expenses, shall
12.19 count scholarships or grants awarded to graduate students that do not require teaching
12.20 or research as unearned income;

12.21 (5) loans, regardless of purpose, from public or private lending institutions,
12.22 governmental lending institutions, or governmental agencies;

12.23 (6) loans from private individuals, regardless of purpose, provided an applicant or
12.24 participant documents that the lender expects repayment;

12.25 (7)(i) state income tax refunds; and

12.26 (ii) federal income tax refunds;

12.27 (8)(i) federal earned income credits;

12.28 (ii) Minnesota working family credits;

12.29 (iii) state homeowners and renters credits under chapter 290A; and

12.30 (iv) federal or state tax rebates;

12.31 (9) funds received for reimbursement, replacement, or rebate of personal or real
12.32 property when these payments are made by public agencies, awarded by a court, solicited
12.33 through public appeal, or made as a grant by a federal agency, state or local government,
12.34 or disaster assistance organizations, subsequent to a presidential declaration of disaster;

- 14.1 (27) income earned by a caregiver under age 20 who is at least a half-time student in
14.2 an approved elementary or secondary education program;
- 14.3 (28) MFIP child care payments under section 119B.05;
- 14.4 (29) all other payments made through MFIP to support a caregiver's pursuit of
14.5 greater economic stability;
- 14.6 (30) income a participant receives related to shared living expenses;
- 14.7 (31) reverse mortgages;
- 14.8 (32) benefits provided by the Child Nutrition Act of 1966, United States Code, title
14.9 42, chapter 13A, sections 1771 to 1790;
- 14.10 (33) benefits provided by the women, infants, and children (WIC) nutrition program,
14.11 United States Code, title 42, chapter 13A, section 1786;
- 14.12 (34) benefits from the National School Lunch Act, United States Code, title 42,
14.13 chapter 13, sections 1751 to 1769e;
- 14.14 (35) relocation assistance for displaced persons under the Uniform Relocation
14.15 Assistance and Real Property Acquisition Policies Act of 1970, United States Code, title
14.16 42, chapter 61, subchapter II, section 4636, or the National Housing Act, United States
14.17 Code, title 12, chapter 13, sections 1701 to 1750jj;
- 14.18 (36) benefits from the Trade Act of 1974, United States Code, title 19, chapter
14.19 12, part 2, sections 2271 to 2322;
- 14.20 (37) war reparations payments to Japanese Americans and Aleuts under United
14.21 States Code, title 50, sections 1989 to 1989d;
- 14.22 (38) payments to veterans or their dependents as a result of legal settlements
14.23 regarding Agent Orange or other chemical exposure under Public Law 101-239, section
14.24 10405, paragraph (a)(2)(E);
- 14.25 (39) income that is otherwise specifically excluded from MFIP consideration in
14.26 federal law, state law, or federal regulation;
- 14.27 (40) security and utility deposit refunds;
- 14.28 (41) American Indian tribal land settlements excluded under Public Laws 98-123,
14.29 98-124, and 99-377 to the Mississippi Band Chippewa Indians of White Earth, Leech
14.30 Lake, and Mille Lacs reservations and payments to members of the White Earth Band,
14.31 under United States Code, title 25, chapter 9, section 331, and chapter 16, section 1407;
- 14.32 (42) all income of the minor parent's parents and stepparents when determining the
14.33 grant for the minor parent in households that include a minor parent living with parents or
14.34 stepparents on MFIP with other children;
- 14.35 (43) income of the minor parent's parents and stepparents equal to 200 percent of the
14.36 federal poverty guideline for a family size not including the minor parent and the minor

15.1 parent's child in households that include a minor parent living with parents or stepparents
 15.2 not on MFIP when determining the grant for the minor parent. The remainder of income is
 3 deemed as specified in section 256J.37, subdivision 1b;

15.4 (44) payments made to children eligible for relative custody assistance under section
 15.5 257.85;

15.6 (45) vendor payments for goods and services made on behalf of a client unless the
 15.7 client has the option of receiving the payment in cash; and

15.8 (46) the principal portion of a contract for deed payment.

15.9 Sec. 7. Minnesota Statutes 2004, section 256J.24, is amended by adding a subdivision
 15.10 to read:

15.11 Subd. 5b. Cost of living increase. The commissioner shall provide a ten percent
 2 cost of living increase to the cash portion of the transitional standard.

15.13 Sec. 8. REPEALER.

15.14 (a) Minnesota Statutes 2004, sections 256B.0631, subdivisions 2 and 4; 256J.37,
 15.15 subdivision 3a; and 256L.04, subdivision 10, are repealed.

15.16 (b) Minnesota Statutes 2005 Supplement, sections 256B.0631, subdivisions 1 and 3;
 15.17 and 256J.37, subdivision 3b, are repealed.

15.18 (c) Laws 2005, First Special Session chapter 4, article 3, section 19, is repealed.

15.19 **ARTICLE 2**

15.20 **TAX ARTICLE**

15.21 Section 1. Minnesota Statutes 2005 Supplement, section 289A.38, subdivision 6,
 15.22 is amended to read:

15.23 Subd. 6. **Omission in excess of 25 percent.** Additional taxes may be assessed
 15.24 within 6-1/2 years after the due date of the return or the date the return was filed,
 15.25 whichever is later, if:

15.26 (1) the taxpayer omits from gross taxable income an amount properly includable
 15.27 in it that is in excess of 25 percent of the amount of gross taxable income stated in the
 15.28 return that would have been reported but for the omission;

15.29 (2) the taxpayer omits from a sales, use, or withholding tax return an amount of taxes
 15.30 in excess of 25 percent of the taxes reported in the return; or

15.31 (3) the taxpayer omits from the gross estate assets in excess of 25 percent of the
 15.32 gross estate reported in the return.

16.1 **EFFECTIVE DATE.** This section is effective the day following final enactment.

16.2 Sec. 2. Minnesota Statutes 2005 Supplement, section 290.01, subdivision 6b, is
16.3 amended to read:

16.4 Subd. 6b. **Foreign operating corporation.** The term "foreign operating
16.5 corporation," when applied to a corporation, means a domestic corporation with the
16.6 following characteristics:

16.7 (1) it is part of a unitary business at least one member of which is taxable in this state;

16.8 (2) it is not a foreign sales corporation under section 922 of the Internal Revenue
16.9 Code, as amended through December 31, 1999, for the taxable year;

16.10 (3) either (i) the average of the percentages of its property and payrolls, including
16.11 the pro rata share of its unitary partnerships' property and payrolls, assigned to locations
16.12 outside the United States, where the United States includes the District of Columbia and
16.13 excludes the commonwealth of Puerto Rico and possessions of the United States, as
16.14 determined under section 290.191 or 290.20, is 80 percent or more; or (ii) it has in effect a
16.15 valid election under section 936 of the Internal Revenue Code; or (ii) at least 80 percent
16.16 of the gross income from all sources of the corporation in the tax year is active foreign
16.17 business income; and

16.18 (4) it has \$1,000,000 of payroll and \$2,000,000 of property, as determined under
16.19 section 290.191 or 290.20, that are located outside the United States. If the domestic
16.20 corporation does not have payroll as determined under section 290.191 or 290.20, but it
16.21 or its partnerships have paid \$1,000,000 for work, performed directly for the domestic
16.22 corporation or the partnerships, outside the United States, then paragraph (3)(i) shall not
16.23 require payrolls to be included in the average calculation for purposes of this subdivision,
16.24 active foreign business income means gross income that is (i) derived from sources
16.25 without the United States, as defined in subtitle A, chapter 1, subchapter N, part 1, of the
16.26 Internal Revenue Code; and (ii) attributable to the active conduct of a trade or business in
16.27 a foreign country.

16.28 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
16.29 December 31, 2005.

16.30 Sec. 3. Minnesota Statutes 2005 Supplement, section 290.01, subdivision 19c, is
16.31 amended to read:

16.32 Subd. 19c. **Corporations; additions to federal taxable income.** For corporations,
16.33 there shall be added to federal taxable income:

17.1 (1) the amount of any deduction taken for federal income tax purposes for income,
17.2 excise, or franchise taxes based on net income or related minimum taxes, including but not
17.3 limited to the tax imposed under section 290.0922, paid by the corporation to Minnesota,
17.4 another state, a political subdivision of another state, the District of Columbia, or any
17.5 foreign country or possession of the United States;

17.6 (2) interest not subject to federal tax upon obligations of: the United States, its
17.7 possessions, its agencies, or its instrumentalities; the state of Minnesota or any other
17.8 state, any of its political or governmental subdivisions, any of its municipalities, or any
17.9 of its governmental agencies or instrumentalities; the District of Columbia; or Indian
17.10 tribal governments;

17.11 (3) exempt-interest dividends received as defined in section 852(b)(5) of the Internal
17.12 Revenue Code;

17.13 (4) the amount of any net operating loss deduction taken for federal income tax
17.14 purposes under section 172 or 832(c)(10) of the Internal Revenue Code or operations loss
17.15 deduction under section 810 of the Internal Revenue Code;

17.16 (5) the amount of any special deductions taken for federal income tax purposes
17.17 under sections 241 to 247 of the Internal Revenue Code;

17.18 (6) losses from the business of mining, as defined in section 290.05, subdivision 1,
17.19 clause (a), that are not subject to Minnesota income tax;

17.20 (7) the amount of any capital losses deducted for federal income tax purposes under
17.21 sections 1211 and 1212 of the Internal Revenue Code;

17.22 (8) the exempt foreign trade income of a foreign sales corporation under sections
17.23 921(a) and 291 of the Internal Revenue Code;

17.24 (9) the amount of percentage depletion deducted under sections 611 through 614 and
17.25 291 of the Internal Revenue Code;

17.26 (10) for certified pollution control facilities placed in service in a taxable year
17.27 beginning before December 31, 1986, and for which amortization deductions were elected
17.28 under section 169 of the Internal Revenue Code of 1954, as amended through December
17.29 31, 1985, the amount of the amortization deduction allowed in computing federal taxable
17.30 income for those facilities;

17.31 (11) the amount of any deemed dividend from a foreign operating corporation
17.32 determined pursuant to section 290.17, subdivision 4, paragraph (g). The deemed dividend
17.33 shall be reduced by the amount of the addition to income required by clauses (19), (20),
(21), and (22);

18.1 (12) the amount of a partner's pro rata share of net income which does not flow
18.2 through to the partner because the partnership elected to pay the tax on the income under
18.3 section 6242(a)(2) of the Internal Revenue Code;

18.4 (13) the amount of net income excluded under section 114 of the Internal Revenue
18.5 Code;

18.6 (14) any increase in subpart F income, as defined in section 952(a) of the Internal
18.7 Revenue Code, for the taxable year when subpart F income is calculated without regard
18.8 to the provisions of section 614 of Public Law 107-147;

18.9 (15) 80 percent of the depreciation deduction allowed under section 168(k)(1)(A)
18.10 and (k)(4)(A) of the Internal Revenue Code. For purposes of this clause, if the taxpayer
18.11 has an activity that in the taxable year generates a deduction for depreciation under
18.12 section 168(k)(1)(A) and (k)(4)(A) and the activity generates a loss for the taxable year
18.13 that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed
18.14 under section 168(k)(1)(A) and (k)(4)(A)" for the taxable year is limited to excess of the
18.15 depreciation claimed by the activity under section 168(k)(1)(A) and (k)(4)(A) over the
18.16 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
18.17 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
18.18 under section 168(k)(1)(A) and (k)(4)(A) is allowed;

18.19 (16) 80 percent of the amount by which the deduction allowed by section 179 of the
18.20 Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal
18.21 Revenue Code of 1986, as amended through December 31, 2003;

18.22 (17) to the extent deducted in computing federal taxable income, the amount of the
18.23 deduction allowable under section 199 of the Internal Revenue Code; ~~and~~

18.24 (18) the exclusion allowed under section 139A of the Internal Revenue Code for
18.25 federal subsidies for prescription drug plans;

18.26 (19) an amount equal to the interest and intangible expenses, losses, and costs paid,
18.27 accrued, or incurred by any member of the taxpayer's unitary group to or for the benefit
18.28 of a corporation that is a member of the taxpayer's unitary business group that qualifies
18.29 as a foreign operating corporation. For purposes of this clause, intangible expenses and
18.30 costs include:

18.31 (i) expenses, losses, and costs for, or related to, the direct or indirect acquisition,
18.32 use, maintenance or management, ownership, sale, exchange, or any other disposition of
18.33 intangible property;

18.34 (ii) losses incurred, directly or indirectly, from factoring transactions or discounting
18.35 transactions;

18.36 (iii) royalty, patent, technical, and copyright fees;

- 19.1 (iv) licensing fees; and
19.2 (v) other similar expenses and costs.

19.3 For purposes of this clause, "intangible property" includes stocks, bonds, patents, patent
19.4 applications, trade names, trademarks, service marks, copyrights, mask works, trade
19.5 secrets, and similar types of intangible assets.

19.6 This clause does not apply to any item of interest or intangible expenses or costs paid,
19.7 accrued, or incurred, directly or indirectly, to a foreign operating corporation with respect
19.8 to such item of income to the extent that the income to the foreign operating corporation
19.9 is income from sources without the United States as defined in subtitle A, chapter 1,
19.10 subchapter N, part 1, of the Internal Revenue Code;

19.11 (20) except as already included in the taxpayer's taxable income pursuant to clause
19.12 (19), any interest income and income generated from intangible property received or
3 accrued by a foreign operating corporation that is a member of the taxpayer's unitary
19.14 group. For purposes of this clause, income generated from intangible property includes:

- 19.15 (i) income related to the direct or indirect acquisition, use, maintenance or
19.16 management, ownership, sale, exchange, or any other disposition of intangible property;
19.17 (ii) income from factoring transactions or discounting transactions;
19.18 (iii) royalty, patent, technical, and copyright fees;
19.19 (iv) licensing fees; and
19.20 (v) other similar income.

19.21 For purposes of this clause, "intangible property" includes stocks, bonds, patents, patent
19.22 applications, trade names, trademarks, service marks, copyrights, mask works, trade
3 secrets, and similar types of intangible assets.

19.24 This clause does not apply to any item of interest or intangible income received or accrued
19.25 by a foreign operating corporation with respect to such item of income to the extent that
19.26 the income is income from sources without the United States as defined in subtitle A,
19.27 chapter 1, subchapter N, part 1, of the Internal Revenue Code;

19.28 (21) the dividends attributable to the income of a foreign operating corporation that
19.29 is a member of the taxpayer's unitary group in an amount that is equal to the dividends
19.30 paid deduction of a real estate investment trust under section 561(a) of the Internal
19.31 Revenue Code for amounts paid or accrued by the real estate investment trust to the
19.32 foreign operating corporation; and

19.34 (22) the income of a foreign operating corporation that is a member of the taxpayer's
19.35 unitary group in an amount that is equal to gains derived from the sale of real or personal
property located in the United States.

20.1 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
20.2 December 31, 2005.

20.3 Sec. 4. Minnesota Statutes 2005 Supplement, section 290.01, subdivision 19d, is
20.4 amended to read:

20.5 Subd. 19d. **Corporations; modifications decreasing federal taxable income.** For
20.6 corporations, there shall be subtracted from federal taxable income after the increases
20.7 provided in subdivision 19c:

20.8 (1) the amount of foreign dividend gross-up added to gross income for federal
20.9 income tax purposes under section 78 of the Internal Revenue Code;

20.10 (2) the amount of salary expense not allowed for federal income tax purposes due to
20.11 claiming the federal jobs credit under section 51 of the Internal Revenue Code;

20.12 (3) any dividend (not including any distribution in liquidation) paid within the
20.13 taxable year by a national or state bank to the United States, or to any instrumentality of
20.14 the United States exempt from federal income taxes, on the preferred stock of the bank
20.15 owned by the United States or the instrumentality;

20.16 (4) amounts disallowed for intangible drilling costs due to differences between
20.17 this chapter and the Internal Revenue Code in taxable years beginning before January
20.18 1, 1987, as follows:

20.19 (i) to the extent the disallowed costs are represented by physical property, an amount
20.20 equal to the allowance for depreciation under Minnesota Statutes 1986, section 290.09,
20.21 subdivision 7, subject to the modifications contained in subdivision 19e; and

20.22 (ii) to the extent the disallowed costs are not represented by physical property, an
20.23 amount equal to the allowance for cost depletion under Minnesota Statutes 1986, section
20.24 290.09, subdivision 8;

20.25 (5) the deduction for capital losses pursuant to sections 1211 and 1212 of the
20.26 Internal Revenue Code, except that:

20.27 (i) for capital losses incurred in taxable years beginning after December 31, 1986,
20.28 capital loss carrybacks shall not be allowed;

20.29 (ii) for capital losses incurred in taxable years beginning after December 31, 1986,
20.30 a capital loss carryover to each of the 15 taxable years succeeding the loss year shall be
20.31 allowed;

20.32 (iii) for capital losses incurred in taxable years beginning before January 1, 1987, a
20.33 capital loss carryback to each of the three taxable years preceding the loss year, subject to
20.34 the provisions of Minnesota Statutes 1986, section 290.16, shall be allowed; and

21.1 (iv) for capital losses incurred in taxable years beginning before January 1, 1987,
21.2 a capital loss carryover to each of the five taxable years succeeding the loss year to the
21.3 extent such loss was not used in a prior taxable year and subject to the provisions of
21.4 Minnesota Statutes 1986, section 290.16, shall be allowed;

21.5 (6) an amount for interest and expenses relating to income not taxable for federal
21.6 income tax purposes, if (i) the income is taxable under this chapter and (ii) the interest and
21.7 expenses were disallowed as deductions under the provisions of section 171(a)(2), 265 or
21.8 291 of the Internal Revenue Code in computing federal taxable income;

21.9 (7) in the case of mines, oil and gas wells, other natural deposits, and timber for
21.10 which percentage depletion was disallowed pursuant to subdivision 19c, clause (11), a
21.11 reasonable allowance for depletion based on actual cost. In the case of leases the deduction
21.12 must be apportioned between the lessor and lessee in accordance with rules prescribed
21.13 by the commissioner. In the case of property held in trust, the allowable deduction must
21.14 be apportioned between the income beneficiaries and the trustee in accordance with the
21.15 pertinent provisions of the trust, or if there is no provision in the instrument, on the basis
21.16 of the trust's income allocable to each;

21.17 (8) for certified pollution control facilities placed in service in a taxable year
21.18 beginning before December 31, 1986, and for which amortization deductions were elected
21.19 under section 169 of the Internal Revenue Code of 1954, as amended through December
21.20 31, 1985, an amount equal to the allowance for depreciation under Minnesota Statutes
21.21 1986, section 290.09, subdivision 7;

21.22 (9) amounts included in federal taxable income that are due to refunds of income,
21.23 excise, or franchise taxes based on net income or related minimum taxes paid by the
21.24 corporation to Minnesota, another state, a political subdivision of another state, the
21.25 District of Columbia, or a foreign country or possession of the United States to the extent
21.26 that the taxes were added to federal taxable income under section 290.01, subdivision 19c,
21.27 clause (1), in a prior taxable year;

21.28 (10) 80 percent of royalties, fees, or other like income accrued or received from a
21.29 foreign operating corporation or a foreign corporation which is part of the same unitary
21.30 business as the receiving corporation, unless the income resulting from such payments or
21.31 accruals is income from sources within the United States as defined in subtitle A, chapter
21.32 1, subchapter N, part 1, of the Internal Revenue Code;

21.33 (11) income or gains from the business of mining as defined in section 290.05,
21.34 subdivision 1, clause (a), that are not subject to Minnesota franchise tax;

21.35 (12) the amount of handicap access expenditures in the taxable year which are not
21.36 allowed to be deducted or capitalized under section 44(d)(7) of the Internal Revenue Code;

22.1 (13) the amount of qualified research expenses not allowed for federal income tax
22.2 purposes under section 280C(c) of the Internal Revenue Code, but only to the extent that
22.3 the amount exceeds the amount of the credit allowed under section 290.068;

22.4 (14) the amount of salary expenses not allowed for federal income tax purposes due
22.5 to claiming the Indian employment credit under section 45A(a) of the Internal Revenue
22.6 Code;

22.7 (15) the amount of any refund of environmental taxes paid under section 59A of the
22.8 Internal Revenue Code;

22.9 (16) for taxable years beginning before January 1, 2008, the amount of the federal
22.10 small ethanol producer credit allowed under section 40(a)(3) of the Internal Revenue Code
22.11 which is included in gross income under section 87 of the Internal Revenue Code;

22.12 (17) for a corporation whose foreign sales corporation, as defined in section 922
22.13 of the Internal Revenue Code, constituted a foreign operating corporation during any
22.14 taxable year ending before January 1, 1995, and a return was filed by August 15, 1996,
22.15 claiming the deduction under section 290.21, subdivision 4, for income received from
22.16 the foreign operating corporation, an amount equal to 1.23 multiplied by the amount of
22.17 income excluded under section 114 of the Internal Revenue Code, provided the income is
22.18 not income of a foreign operating company;

22.19 (18) any decrease in subpart F income, as defined in section 952(a) of the Internal
22.20 Revenue Code, for the taxable year when subpart F income is calculated without regard
22.21 to the provisions of section 614 of Public Law 107-147;

22.22 (19) in each of the five tax years immediately following the tax year in which an
22.23 addition is required under subdivision 19c, clause (15), an amount equal to one-fifth of
22.24 the delayed depreciation. For purposes of this clause, "delayed depreciation" means the
22.25 amount of the addition made by the taxpayer under subdivision 19c, clause (15). The
22.26 resulting delayed depreciation cannot be less than zero; and

22.27 (20) in each of the five tax years immediately following the tax year in which an
22.28 addition is required under subdivision 19c, clause (16), an amount equal to one-fifth of the
22.29 amount of the addition.

22.30 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
22.31 December 31, 2005.

22.32 Sec. 5. Minnesota Statutes 2004, section 290.34, subdivision 1, is amended to read:

22.33 Subdivision 1. **Business conducted in such a way as to create losses or improper**
22.34 **taxable net income.** (a) When any corporation liable to taxation under this chapter
22.35 conducts its business in such a manner as, directly or indirectly, to benefit its members

23.1 or stockholders or any person or corporation interested in such business or to reduce the
23.2 income attributable to this state by selling the commodities or services in which it deals
at less than the fair price which might be obtained therefor, or buying such commodities
23.4 or services at more than the fair price for which they might have been obtained, or when
23.5 any corporation, a substantial portion of whose shares is owned directly or indirectly by
23.6 another corporation, deals in the commodities or services of the latter corporation in such
23.7 a manner as to create a loss or improper net income or to reduce the taxable net income
23.8 attributable to this state, the commissioner of revenue may determine the amount of its
23.9 income so as to reflect what would have been its reasonable taxable net income but for the
23.10 arrangements causing the understatement of its taxable net income or the overstatement of
23.11 its losses, having regard to the fair profits which, but for any agreement, arrangement, or
23.12 understanding, might have been or could have been obtained from such business.

(b) When any corporation engages in a transaction or series of transactions whose
23.14 primary business purpose is the avoidance of tax, or engages in a transaction or series of
23.15 transactions without economic substance, that transaction or series of transactions shall be
23.16 disregarded and the commissioner shall determine taxable net income without regard for
23.17 any such transaction or series of transactions.

23.18 **Sec. 6. INTENT OF LEGISLATURE.**

23.19 Section 5 does not change Minnesota law, but merely clarifies the legislature's
23.20 intention with respect to transactions without economic substance or business purpose.

APPENDIX
Repealed Minnesota Statutes: 06-6390

256B.0631 MEDICAL ASSISTANCE CO-PAYMENTS.

Subdivision 1. **Co-payments.** (a) Except as provided in subdivision 2, the medical assistance benefit plan shall include the following co-payments for all recipients, effective for services provided on or after October 1, 2003:

(1) \$3 per nonpreventive visit. For purposes of this subdivision, a visit means an episode of service which is required because of a recipient's symptoms, diagnosis, or established illness, and which is delivered in an ambulatory setting by a physician or physician ancillary, chiropractor, podiatrist, nurse midwife, advanced practice nurse, audiologist, optician, or optometrist;

(2) \$3 for eyeglasses;

(3) \$6 for nonemergency visits to a hospital-based emergency room; and

(4) \$3 per brand-name drug prescription and \$1 per generic drug prescription, subject to a \$12 per month maximum for prescription drug co-payments. No co-payments shall apply to antipsychotic drugs when used for the treatment of mental illness.

(b) Recipients of medical assistance are responsible for all co-payments in this subdivision.

Subd. 2. **Exceptions.** Co-payments shall be subject to the following exceptions:

(1) children under the age of 21;

(2) pregnant women for services that relate to the pregnancy or any other medical condition that may complicate the pregnancy;

(3) recipients expected to reside for at least 30 days in a hospital, nursing home, or intermediate care facility for the mentally retarded;

(4) recipients receiving hospice care;

(5) 100 percent federally funded services provided by an Indian health service;

(6) emergency services;

(7) family planning services;

(8) services that are paid by Medicare, resulting in the medical assistance program paying for the coinsurance and deductible; and

(9) co-payments that exceed one per day per provider for nonpreventive visits, eyeglasses, and nonemergency visits to a hospital-based emergency room.

Subd. 3. **Collection.** The medical assistance reimbursement to the provider shall be reduced by the amount of the co-payment, except that reimbursement for prescription drugs shall not be reduced once a recipient has reached the \$12 per month maximum for prescription drug co-payments. The provider collects the co-payment from the recipient. Providers may not deny services to recipients who are unable to pay the co-payment, except as provided in subdivision 4.

Subd. 4. **Uncollected debt.** If it is the routine business practice of a provider to refuse service to an individual with uncollected debt, the provider may include uncollected co-payments under this section. A provider must give advance notice to a recipient with uncollected debt before services can be denied.

256J.37 TREATMENT OF INCOME AND LUMP SUMS.

Subd. 3a. **Rental subsidies; unearned income.** (a) Effective July 1, 2003, the county agency shall count \$50 of the value of public and assisted rental subsidies provided through the Department of Housing and Urban Development (HUD) as unearned income to the cash portion of the MFIP grant. The full amount of the subsidy must be counted as unearned income when the subsidy is less than \$50. The income from this subsidy shall be budgeted according to section 256J.34.

(b) The provisions of this subdivision shall not apply to an MFIP assistance unit which includes a participant who is:

(1) age 60 or older;

(2) a caregiver who is suffering from an illness, injury, or incapacity that has been certified by a qualified professional when the illness, injury, or incapacity is expected to continue for more than 30 days and prevents the person from obtaining or retaining employment; or

(3) a caregiver whose presence in the home is required due to the illness or incapacity of another member in the assistance unit, a relative in the household, or a foster child in the household when the illness or incapacity and the need for the participant's presence in the home has been certified by a qualified professional and is expected to continue for more than 30 days.

(c) The provisions of this subdivision shall not apply to an MFIP assistance unit where the parental caregiver is an SSI recipient.

(d) Prior to implementing this provision, the commissioner must identify the MFIP participants subject to this provision and provide written notice to these participants at least 30

APPENDIX

Repealed Minnesota Statutes: 06-6390

days before the first grant reduction. The notice must inform the participant of the basis for the potential grant reduction, the exceptions to the provision, if any, and inform the participant of the steps necessary to claim an exception. A person who is found not to meet one of the exceptions to the provision must be notified and informed of the right to a fair hearing under section 256J.40. The notice must also inform the participant that the participant may be eligible for a rent reduction resulting from a reduction in the MFIP grant and encourage the participant to contact the local housing authority.

Subd. 3b. **Treatment of Supplemental Security Income.** The county shall reduce the cash portion of the MFIP grant by up to \$125 for an MFIP assistance unit that includes one or more SSI recipients who reside in the household, and who would otherwise be included in the MFIP assistance unit under section 256J.24, subdivision 2, but are excluded solely due to the SSI recipient status under section 256J.24, subdivision 3, paragraph (a), clause (1). If the SSI recipient or recipients receive less than \$125 of SSI, only the amount received shall be used in calculating the MFIP cash assistance payment. This provision does not apply to relative caregivers who could elect to be included in the MFIP assistance unit under section 256J.24, subdivision 4, unless the caregiver's children or stepchildren are included in the MFIP assistance unit.

256L.04 ELIGIBLE PERSONS.

Subd. 10. **Citizenship requirements.** Eligibility for MinnesotaCare is limited to citizens of the United States, qualified noncitizens, and other persons residing lawfully in the United States as described in section 256B.06, subdivision 4, paragraphs (a) to (e) and (j). Undocumented noncitizens and nonimmigrants are ineligible for MinnesotaCare. For purposes of this subdivision, a nonimmigrant is an individual in one or more of the classes listed in United States Code, title 8, section 1101(a)(15), and an undocumented noncitizen is an individual who resides in the United States without the approval or acquiescence of the Immigration and Naturalization Service.

APPENDIX

Repealed Minnesota Session Laws: 06-6390

Laws 2005, First Special Session chapter 4, article 3, section 19

Sec. 19. [PARENT FEE SCHEDULE.]

(a) Notwithstanding Minnesota Rules, part 3400.0100, subpart 4, the parent fee schedule is as follows: <u>Income Range (as a</u> <u>Co-payment (as a percent of the federal</u> <u>percentage of adjusted poverty guidelines)</u> <u>gross income)</u> <u>0-74.99%</u> <u>\$0/month 75.00-99.99%</u> <u>\$5/month 100.00-104.99%</u> <u>3.23% 105.00-109.99%</u> <u>3.23% 110.00-114.99%</u> <u>3.23% 115.00-119.99%</u> <u>3.23% 120.00-124.99%</u> <u>3.60% 125.00-129.99%</u> <u>3.60% 130.00-134.99%</u> <u>3.60% 135.00-139.99%</u> <u>3.60% 140.00-144.99%</u> <u>3.97% 145.00-149.99%</u> <u>3.97% 150.00-154.99%</u> <u>3.97% 155.00-159.99%</u> <u>4.75% 160.00-164.99%</u> <u>4.75% 165.00-169.99%</u> <u>5.51% 170.00-174.99%</u> <u>5.88% 175.00-179.99%</u> <u>6.25% 180.00-184.99%</u> <u>6.98% 185.00-189.99%</u> <u>7.35% 190.00-194.99%</u> <u>7.72% 195.00-199.99%</u> <u>8.45% 200.00-204.99%</u> <u>9.92% 205.00-209.99%</u> <u>12.22% 210.00-214.99%</u> <u>12.65% 215.00-219.99%</u> <u>13.09% 220.00-224.99%</u> <u>13.52% 225.00-229.99%</u> <u>14.35% 230.00-234.99%</u> <u>15.71% 235.00-239.99%</u> <u>16.28% 240.00-244.99%</u> <u>17.37% 245.00-249.99%</u> <u>18.00% 250%</u> <u>ineligible</u>

(b) This schedule is effective January 1, 2006, and shall be implemented at or before the participant's next eligibility redetermination. The parent fee schedule in Laws 2003, First Special Session chapter 14, article 9, section 36, shall remain in effect until the schedule in this section is fully implemented.

(c) A family's monthly co-payment fee is the fixed percentage established for the income range multiplied by the highest possible income within that income range.

Senate Early Childhood Policy and Budget Division
Senate Health and Human Services Budget Division

Chairs: Sen. John Hottinger and Sen. Linda Berglin

Tuesday, March 14, 2006

9 a.m. – 11:30 a.m.

Room 123 State Capitol

S.F. 2819-Hottinger: Child care modifications

S.F. 3015-Berglin: TANF Funding

S.F. 3016-Berglin: TANF Funding.

Overview

- Ann Kaner-Roth, Executive Director, Child Care WORKS!
- Beth Haney, Children's Defense Fund-MN
- Michelle Thole, MN Licensed Family Child Care Association

Providers

- Rita Iacarella, SEIU Kids First
- Lisa Thompson, President, Child Care Providers Together (CCPT)
- Judy Massey, Vice President, CCPT
- Donna Odea, CCPT

Parents

- Talisha Mattson
- Cassandra Lyons
- Sally Lubrant
- Trishalla Bell

Other advocates

- Chad Dunkley, President, MN Child Care Association; CEO, New Horizon Academy
- Terri McNeil, Center Director for Children's Home Society & Family Services
- Byron Laher, United Way
- Angela Kahn, Welfare Rights Committee
- Deb Konechn, Welfare Rights Committee

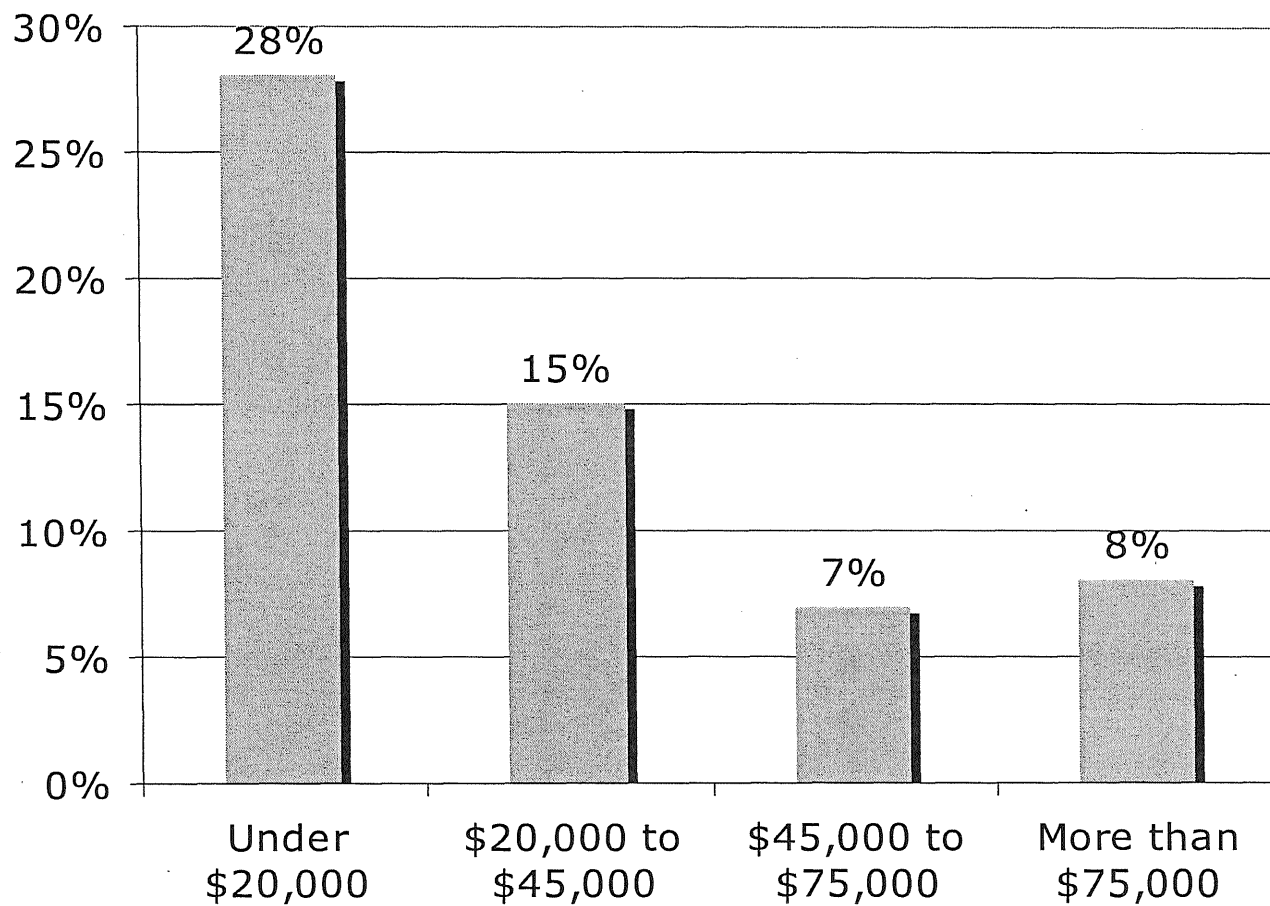
Missed Opportunities Produce
Costly Outcomes:
Child Care Policy in Minnesota
Updated March 2006

Beth Haney, PhD
Research Director
Children's Defense Fund Minnesota

- $\frac{3}{4}$ of Minnesota families with children under the age of 13 regularly use some type of care
- In 2004, 70% of Minnesota families who used child care paid out-of-pocket costs, an 11% increase from 1999.

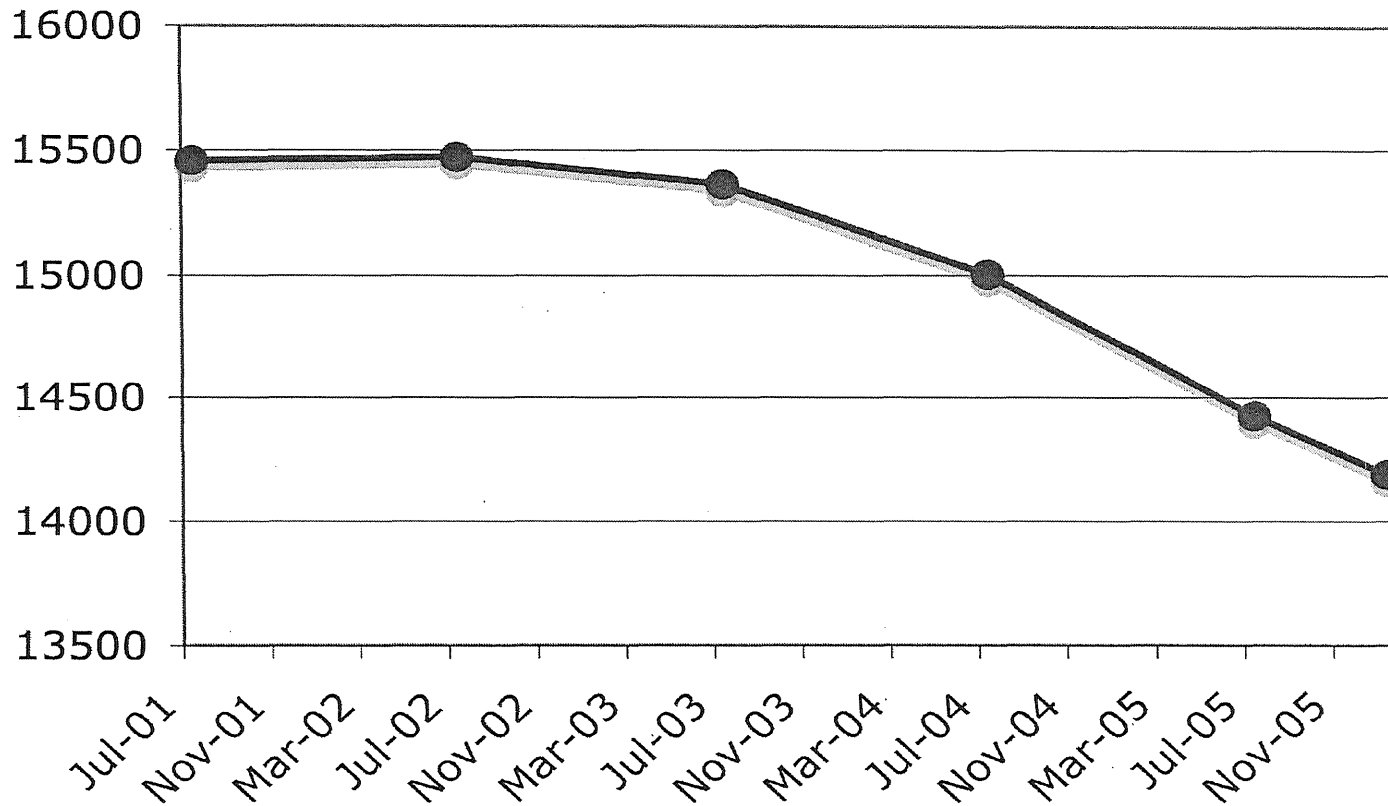
SOURCE: Wilder Research, *2004 Minnesota Statewide Household Child Care Survey*

Proportion of Annual Household Income Minnesota Families Pay for Child Care



SOURCE: Wilder Research, *2004 Minnesota Statewide Household Child Care Survey*

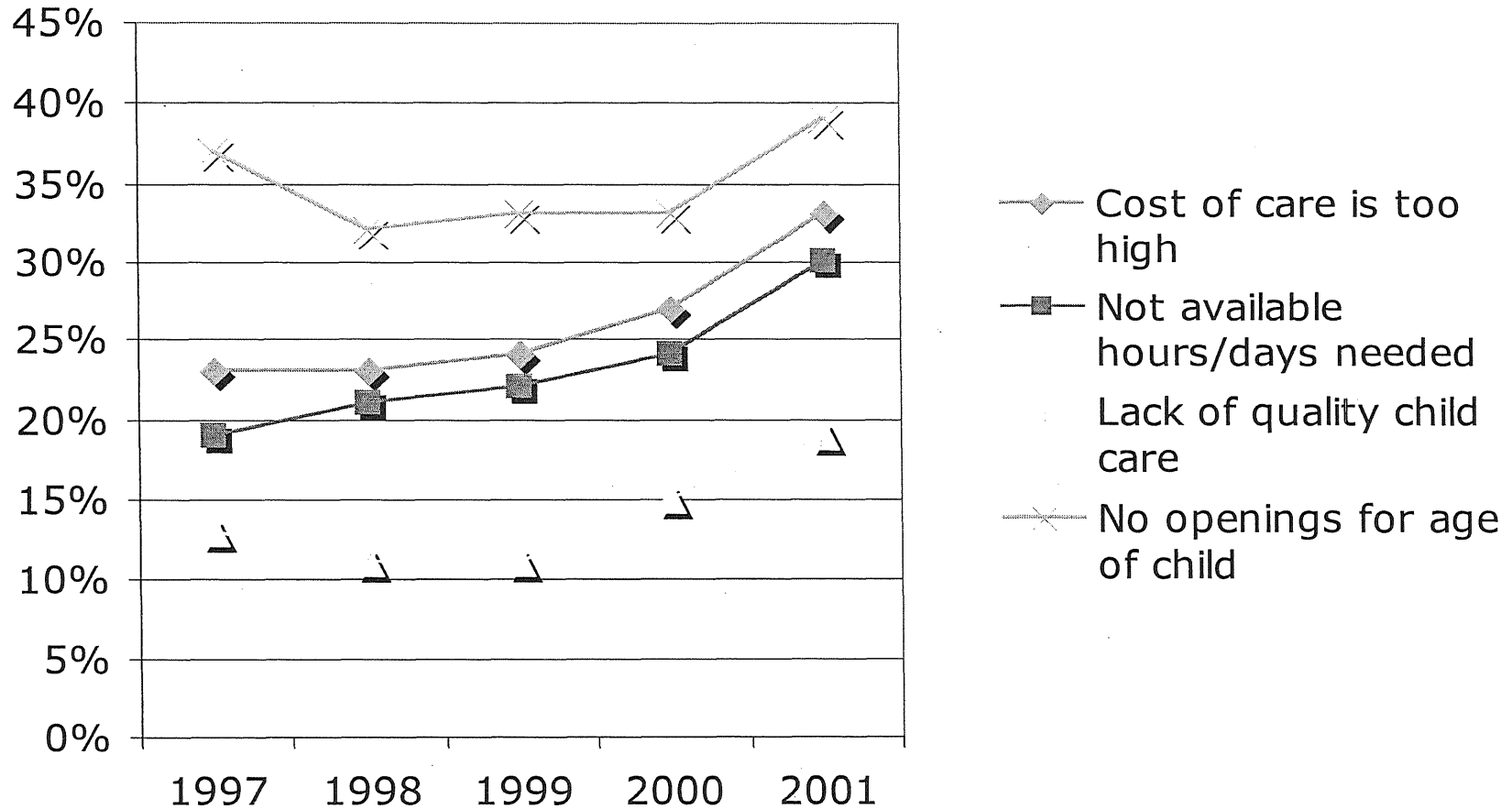
Total Number of All Licensed Child Care Providers (Duplicated) in Minnesota



SOURCE: Children's Defense Fund Minnesota analysis of data provided by the Minnesota Child Care Resource and Referral Network

Note: Data of licensed providers is gathered based on type of care. Providers who are considered as being more than one type (e.g., a program that is both a licensed child care center and an after-school program for school age children) are thus counted more than once, or duplicated, in the composite numbers.

Minnesota Working Parents' Reported Problems During Child Care Search, 2000-2005



SOURCE: Child Care Resource and Referral, Results of referral outcomes follow-up surveys, Wilder Research

- The percentage of Minnesota parents who said they or their spouse/partner had missed time from work within the past 6 months because of a problem with child care increased from 23% in 1999 to 37% in 2004.

SOURCE: Wilder Research, *1999 Minnesota Statewide Household Child Care Survey* and *2004 Minnesota Statewide Household Child Care Survey*

Public Investment in Child Care in Minnesota, 2002-2005

- State general fund dollars spent on MFIP/TY CCAP decreased by 28% from FY2002 to FY2005.
- State general fund dollars spent on BSF decreased by 64% from FY2002 to FY2005.

SOURCE: Children's Defense Fund Minnesota analysis of data provided in MN House of Representatives Research Department Information Brief, *Funding to Support Child Care Assistance*, October 2005

Dramatic Changes to Minnesota's Child Care Policy in 2003

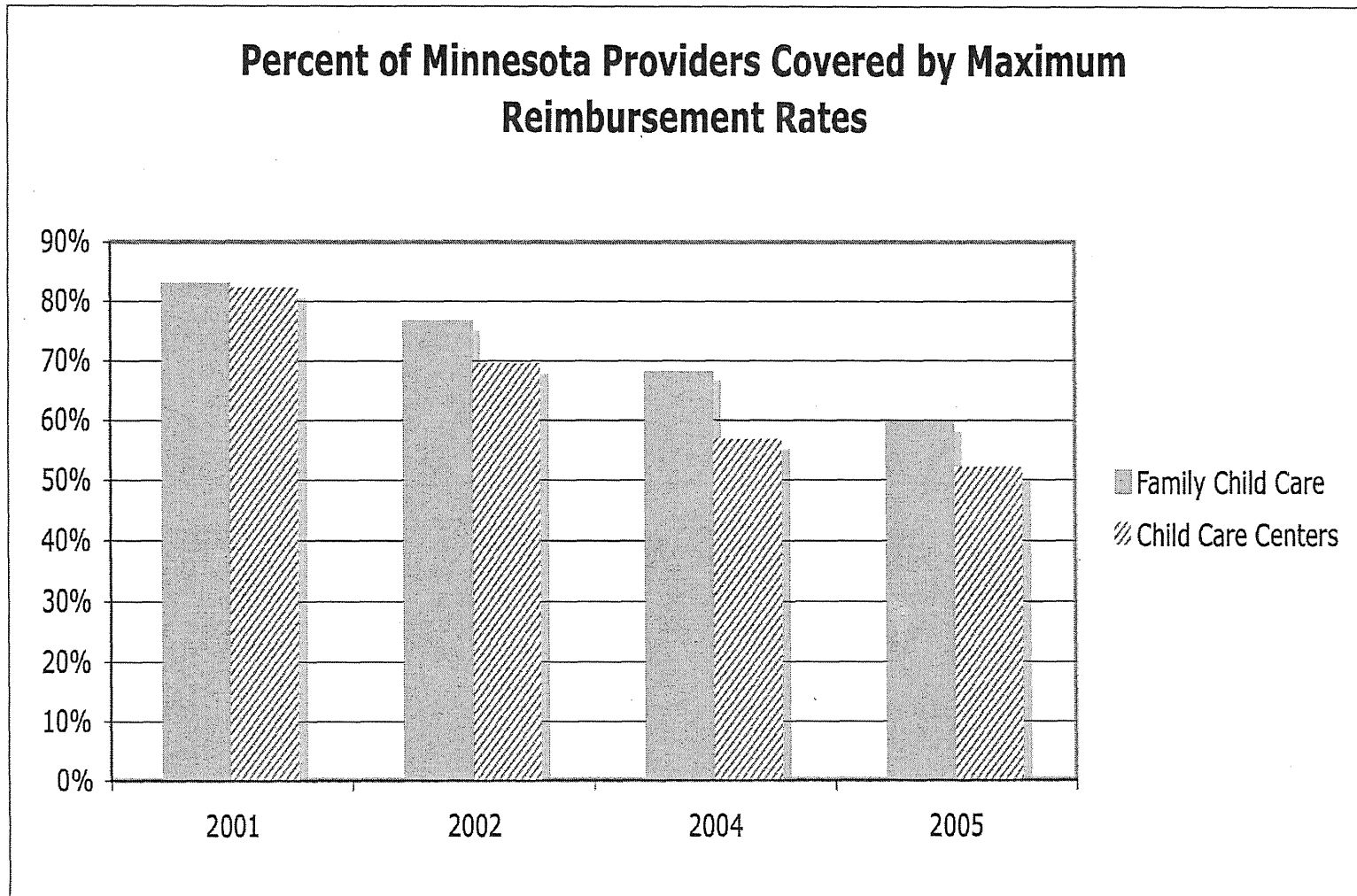
- In terms of initial eligibility for CCAP, Minnesota dropped from being in top 10 states in 2001 to being in the bottom 10 states in 2005.
 - Mississippi, which ranks last in overall child well-being, performs better than Minnesota for child care assistance.

SOURCE: National Women's Law Center, *Child Care Assistance Policies 2005*

- As of October 2005, approximately 11,000 fewer Minnesota children received financial assistance for child care through CCAP than in June 2003.
 - This includes a *30% decrease* in the number of lowest-income children whose families access CCAP through MFIP or the Transition Year.
- As of December 2005, about 5,000 families on the BSF waiting list statewide.

SOURCE: Children's Defense Fund Minnesota analysis of CCAP participation data provided by Minnesota Department of Human Services

Percent of Minnesota Providers Covered by Maximum Reimbursement Rates



SOURCE: Children's Defense Fund Minnesota analysis of data provided by Minnesota Department of Human Services

In September 2005, US Dept of Health and Human Services wrote to MN Dept of Human Services Commissioner Goodno,

“We are concerned that a system of child care payments that does not reflect the realities of the market makes it economically infeasible for many providers to serve low-income children—undermining the [federal] statutory requirements of equal access and parental choice.”



CHILD CARE CRISIS BILL

SF 2819 (Hottinger)/HF 3259 (Slawik)

Background to the Child Care Crisis Bill

Minnesotans have a stake in ensuring that all young children get the early care and education they need to be successful in school and in life. These children will grow up to be our neighbors, doctors, firefighters and political leaders. And, with the majority of moms in the workforce, the preponderance of Minnesota's youngest citizens are in child care for some portion of their day. The Child Care Assistance Program (CCAP) helps Minnesota families to afford child care. Yet, the CCAP reimbursement rate has been frozen since 2003 at the 2001 market rate, with only a 1.75% one-time increase in 2006, even though child care costs have increased by about 15% since 2001. Low reimbursement rates limit parents' ability to afford quality child care programs—the kind of early childhood experiences that make the most difference for children at risk of not succeeding in school and in life. In addition, low reimbursement rates create a disincentive for quality providers to enroll CCAP children. Furthermore, almost 5,000 working families are currently on the CCAP waiting list because they need help paying for child care in order to stay in the workforce.

- **Increases Entrance Eligibility for the Child Care Assistance Program**

In 2003, the income eligibility for the Basic Sliding Fee Child Care Assistance Program was lowered from approximately 290% of the federal poverty guidelines (FPG) to 175% FPG, an annual income of \$28,158 for a family of three.

Section 1 of this bill increases income eligibility to enter CCAP from 175% FPG to 250% FPG in order to improve family access to child care assistance.

- **Lifts the Freeze on CCAP Provider Reimbursement Rates**

The Child Care Assistance Program's provider reimbursement rates have been frozen since 2003 at the rate at the 2001 market rate, save a 1.75% one-time increase in 2006.

Section 2 of this bill lifts the reimbursement rate freeze for child care programs to make child care accessible and affordable for low-income working families.

- **Establishes a Higher Rate for Accredited Child Care Programs Serving CCAP Families**

Higher quality child care costs more. The state should come closer to meeting the market rate to provide access for low-income children to high quality care by paying a rate that more closely mirrors the rate charged to private-pay families.

Section 3 of this bill establishes a 15% differential rate above the base reimbursement rate for child care programs serving CCAP families provided that that rate does not exceed the rate charged to private-pay families.

- **Lowers Parent Co-pays**

Co-pay scales range from \$5 to 18% of a families' gross income. Anecdotal information suggests that many eligible families are dropping off CCAP because they are unable to afford their co-payments.

Section 5 of this bill lowers the parent co-pay structure to range from \$5 for families between 75-100% of FPG (about \$16,000 for a family of three) to 14% of a families' gross income at 250% (about \$40,000 for a family of 3) of FPG. The new co-payment schedule also eases the incremental increase to avoid

- **Funds the Child Care Assistance Program Waiting List**

Minnesota's CCAP has a growing waiting list over 4,800 families. This waiting list is indicative of the fact that the resources invested by the state are not meeting the need.

Section 6 of this bill appropriates funds from the General Fund to provide assistance to eligible families on the basic sliding fee CCAP waiting list.

Editorials

Editorials represent the institutional voice of the Star Tribune. They are researched and written by the Editorial Department, which is independent of the newsroom.

StarTribune

J. KEITH MOYER, President and Publisher

ANDERS GYLLENHAAL, Editor
SCOTT GILLESPIE, Managing Editor

SUSAN ALBRIGHT, Editor, Editorial Pages
JIM BOYD, Deputy Editor, Editorial Pages

Finally, early ed goes on governor's agenda

• A small but smart start at better early childhood education

Gov. Tim Pawlenty had the right word last week for the 2005 Legislature's decision to stop measuring how ready 5-year-olds are for kindergarten's lessons: "Mistake."

Pawlenty is asking the 2006 Legislature to undo that blunder. That's one of the small but smart initiatives the governor launched last week to improve learning for Minnesota preschoolers.

At an annual cost of about \$10 million, Pawlenty's proposals are the least the state should do this year. After three years of cutting the subsidies that allow low-income families access to quality child care, the governor and legislators have a long way to go.

The governor does not propose restoring the \$150 million that's been taken from child care since 2003. But he seeks initial steps to make sure the \$100 million Minnesota taxpayers are still spending per year on care for at-risk children also buys a generous helping of preschool. Pawlenty proposes to collect and advertise the school-readiness results of any caregiver paid in part by the state.

That and other ideas spring in part from a study funded by the Itasca Project, a business group, and conducted by the nationally recognized research firm McKinsey and Co. Itasca deserves credit for persistence in pushing early childhood education; McKinsey did well to point out the potential for gain if state-funded child care and preschool are more closely knit together.

Credit must also go to the loyal opposition. All of Pawlenty's DFL and Independence Party challeng-

2004 EXPENDITURES ON LITTLE LEARNERS

- \$67.9 million for child care for MFIP families (welfare)
- \$29.7 million for child care for low-income workers
- \$19.1 million for Early Childhood Family Education
- \$9.5 million for School Readiness Program
- \$16.4 million for Head Start
- \$2.2 million for developmental progress screening

SOURCE: MCKINSEY & CO.

ers are urging more state investment in early learning. Several are making the issue a centerpiece of their campaigns.

Pawlenty's response does not begin to undo the loss that poor families have sustained on his watch — as DFL Senate leaders pointed out Monday. The senators want to spend what it would take — \$80 million in the coming fiscal year — to restore child care support to its pre-2003 level, reward caregivers who meet accreditation standards and give help to all of the wait-listed families who qualify for assistance, but can't get it because of inadequate state funds.

The DFL program carries a big pricetag, and its promoters lack a clear plan for funding it. But on the eve of today's release of Pawlenty's supplemental budget, the DFLers were serving notice that if he doesn't address the needs of the poor children who have been priced out of high-quality care, they will.



Rea

PHARMACISTS' CHOICE Other dilemmas

In light of the recent support of pharmacists using their moral judgments to deny service to customers, I have some questions:

- Can Muslim convenience store clerks sell me coffee and doughnuts, but send me to a different store to buy beer because they morally object to drinking?

- Can my fundamentalist video store employee allow me to rent "Crash" and "Walk the Line" but direct me to his coworker to rent "Brokeback Mountain" because he objects to homosexuality?

- Can Jewish clerks at the grocery store sell me milk and eggs but send me to a different checkout aisle to buy my bacon because they morally object to eating pork?

DONALD LIVINGSTON, Minneapolis

No choice at workplace

So when did it become fashionable to tell your boss you can't do your job because you have a moral dilemma? Isn't that what pharmacists are doing?

More importantly, do we want to be carving out exceptions, giv-

By Children's Defense Fund Minnesota
and Child Care WORKS

April 2005



Missed Opportunities Produce Costly Outcomes

**“Environmental changes, educational shortcomings, economic benefits and ethical imperatives
all underline the value of preparing kids better for success in school, work, and life.”**

—Minnesota School Readiness Business Advisory Council

*Funding for this report was provided by the
Minnesota Policy Research and Analysis Network,
which is supported by the McKnight Foundation.
Members include Children's Defense Fund Minnesota,
JOBS NOW Coalition, Legal Services Advocacy Project,
Minnesota Budget Project, and
Minnesota Community Action Association.*

Table of Contents

Child Care in Minnesota	1
Overview of Key CCAP Components	3
Children: Missed Opportunity to Get Ready for Learning and Success	5
Parents: Missed Opportunity to Support Working Parents	7
Providers: Missed Opportunity to Support Small Businesses	11
Businesses and Communities: Missed Opportunity to Improve Minnesota's Prosperity	13
Conclusion: Opportunities for ALL Minnesotans	15
Appendix A	16
Key Findings	17
References	18

FPO--back page of toc
blank, so report starts on
right side

Childcare in Minnesota

Successful children become successful adults, so investing in Minnesota’s children is good for all of Minnesota. Experts in many different fields—including primary school teachers, police officers, economists, and early brain development researchers—agree that investing in quality early care and education produces good outcomes for children and significant benefits to the broader community. Yet, public resources that support working Minnesota families’ access to quality early care and education for their children continue to diminish.

This report focuses on Minnesota’s Child Care Assistance Program (CCAP), which provides low-income working families with financial assistance to access early care and education for their children. The most dramatic policy and funding shifts in early care and education in recent years have been to CCAP. The report analyzes the impact of the changes and makes recommendations for future policy-making. The report uses the terms “early care and education” and “child care” interchangeably—because, in fact, they are one and the same.

Stakeholders of Child Care: Everyone Shares the Outcomes

Affordable and accessible quality child care helps parents to work while providing early education opportunities for Minnesota’s youngest citizens. Using public resources to support these families reflects Minnesota’s



Courtney Cushing Kiernat

community values—work and education. Rather than fund and administer a bureaucratic child care “system,” public resources in Minnesota help parents access the private early care and education market. Consequently, child care has many stakeholders:

- Children
- Parents
- Child Care Providers
- Businesses
- Communities

These interconnected stakeholders are each affected by changes in the system. And each bears a cost if children are left in low quality or unstable child care arrangements.

The Public’s Role in Early Childhood Care and Education

Federal, state and local governments have an important role in ensuring the

stability and accessibility of the early care and education infrastructure—much in the same way government supports other community infrastructures, like roads and public safety.

In Minnesota, less than one percent of the entire state budget is spent on early care and education programs. The Minnesota Child Care Assistance Program (CCAP) is only one of these programs.

Using public funds to pay for child care assistance is highly effective at helping low-income families work and succeed. A study found that former welfare-to-work recipients with young children are 60 percent more likely to still be working after two years if they receive child care assistance. As welfare reform progresses and fewer public funds are spent on providing cash assistance to families moving from Minnesota’s welfare-to-

work program (the Minnesota Family Investment Program, or MFIP), there is an increased demand for child care assistance (see Figure 1). But estimates suggest that only 16 percent of eligible Minnesota families used child care assistance in 2000. At the same time, 7,300 families on average were on a waiting list for the assistance.

Child Care Policy & Funding in Minnesota

In Minnesota, a combination of federal, state and county resources help all working families pay for child care. Income tax breaks for a limited portion of parents' child care costs are available under both state and federal tax codes. In addition, Minnesota uses the federal Child Care Development Block Grant (CCDBG) and Temporary Assistance to Needy Families (TANF) funds, state general funds and special revenue funds to fund Minnesota's Child Care Assistance Program (CCAP).



Courtney Cushing Kiernat

Federal CCDBG and TANF funding for child care remains stagnant. Consequently, because actual child care costs continue to rise, the federal funding for assistance shrinks over time. For fiscal year 2006, President Bush recommends cuts that will result in a loss of assistance for 300,000 children nationwide—5,000 in Minnesota. This is of great concern, as CCAP relies heavily on

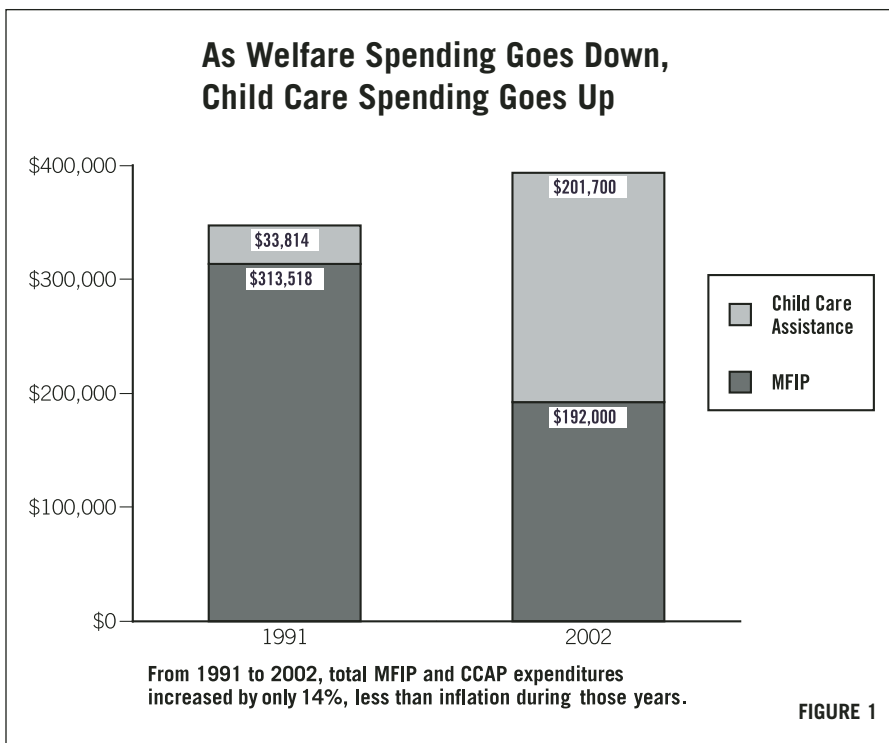
federal funding. It accounted for almost 45 percent of CCAP funds in the 2004–2005 state biennium.

Child Care Policy Changes in Minnesota

Despite the emerging evidence-based arguments for investing more public resources into early childhood programs, Minnesota significantly decreased its commitment to helping working families access quality early care and education in recent years.

Reduced State Funding for Child Care by \$86 Million in 2004-2005 Biennium

In 2003, the state legislature cut funding for CCAP by \$86 million, or about one third, for the 2004-2005 biennium. This included a 48 percent decrease of state funds for BSF (see box "Overview of Key CCAP Components" on next page). The policy changes lowered the program eligibility level, increased family co-payments and temporarily froze provider reimbursement rates. (For a detailed explanation of 2003 legislative changes, see Appendix A.) Many providers had to pass more costs onto



families in order to stay afloat. The changes have made stable, quality care unavailable or unaffordable for thousands of families in need of assistance. **An estimated 10,000 children are no longer accessing child care assistance as a result of these changes, although their parents are still working and need assistance.**

Many of the 2003 policy changes in CCAP were permanent. Therefore, projected CCAP funds for the 2006-07 biennium also were reduced by \$51 million, or almost 20 percent. However, the freeze on the maximum reimbursement rates paid to child care providers was supposed to be a temporary cost-savings measure, not a permanent policy change. The freeze was scheduled to be lifted in July 2005.

Governor Pawlenty Proposes Cutting Additional \$70 Million—Total \$121 Million Reduction for 2006-2007 Biennium

A new proposal in the governor's budget would reduce the state's commitment by an additional \$70 million for the 2006-2007 biennium by maintaining the temporary freeze for three more years. **Under this proposal, reimbursement rates for private providers would be based on 2001 private market rates until July 2007.**

Costly Outcome

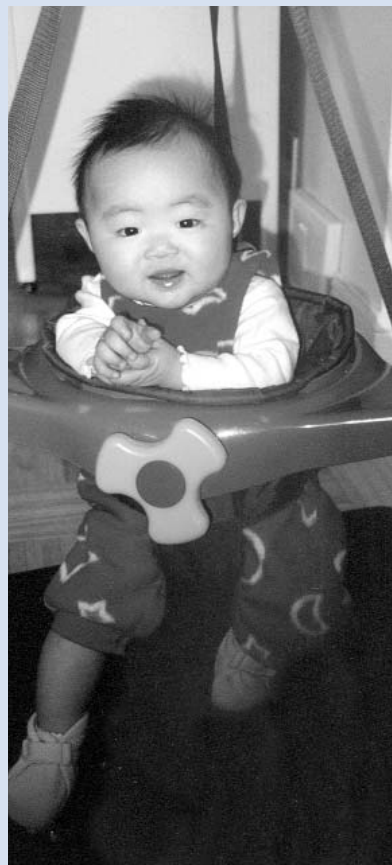
Cutting public investment in child care does not contain the cost of providing care; it only hurts families and businesses and shifts costs to local Minnesota communities. Access and quality were greatly compromised by the 2003 changes; neither working Minnesota families nor private providers can financially afford more cuts. The governor's proposal

Overview of Key CCAP Components

Resources: The state allocates CCAP funds to counties; counties add their own funds for program administration—including determining family eligibility, and registering and reimbursing providers.

Families: CCAP helps Minnesota families that participate in the state's welfare-to-work program—the Minnesota Family Investment Program (MFIP), those who have left MFIP within the past year and are part of Minnesota's Transition Year (TY) program, and families with incomes under 175 percent of the poverty guidelines (about \$27,000 for a family of three) through the Basic Sliding Fee (BSF) program. BSF families receive assistance until their income rises to 250 percent of poverty (about \$39,000 for a family of three). Child care for MFIP and TY families is forecasted so every eligible family who applies is guaranteed assistance. BSF is funded with a capped appropriation, so a limited number of eligible families receive assistance. Others who are eligible and apply are put onto a waiting list.

Parent Choice: Under federal law, CCAP parents must be able choose any provider who is willing to be reimbursed by CCAP up to a maximum reimbursement rate set by the state. Families choose from both



informal care (families, friends or neighbors) and licensed options (center- or family-based).

Parent Responsibility: Families are responsible for a monthly co-payment that increases as the family's income increases. Families who earn less than 75 percent of the poverty guidelines are exempt from the monthly parent co-payment. In addition, families may be required by their provider to pay the difference between the state reimbursement rate and the provider's actual rate, as well as any special fees charged by the provider.



Family Faced 500% Increase in Child Care Costs

Mary,* a single mother of twin toddlers who worked full-time as a hotel clerk in Greater Minnesota, earned just over \$2,000 per month. Prior to the 2003 cuts, she paid a \$58 co-payment for child care utilizing CCAP.

In 2003, her monthly co-payment doubled to \$119. In addition, the rate at which her child care center was reimbursed for her children was frozen. The center started charging her an additional \$240 per month to make up the difference. Paying \$359 per month for child care—a 500 percent increase—was more than Mary could handle. She pulled her children from the center.

**name has been changed*



Courtney Cushing Kremat

will make their situations worse. Private providers, many of whom (according to the Department of Human Services) are operating with no profit margin, confirm that the continued reimbursement freeze will force them to:

- Pass the rate difference on to CCAP families;
- Stop taking CCAP families; or
- Lower quality by reducing staff.

The Departments of Finance and Human Services estimate that a continued rate freeze will prevent thousands of the lowest-income working families from accessing help to pay for child care.

What Cost Does Each Stakeholder Bear?

Each stakeholder in the child care system will experience costly outcomes if Minnesota does not strengthen its commitment to early childhood and increase investments in the child care infrastructure. Ultimately, taxpayers and lawmakers need to decide if the *cost of not investing* in quality child care is too great, creating life-long impacts on future generations.

Children: Missed Opportunity to Get Ready for Learning and Success

To thrive and succeed, children need nurturing opportunities to develop—cognitively, physically, spiritually, socially and emotionally. Families are the primary influence on their children’s development, but most Minnesota parents work outside the home. As a result, two-thirds of young Minnesota children spend time in early care and education settings.

Child care is more than “babysitting”; it establishes the foundation for children’s development. Brain research studies consistently find that the first five years of a child’s life are the most critical for development. Physical, emotional, social and cognitive growth is occurring rapidly. During this critical time, young brains are shaped by the quality of their interactions with adults. High quality interactions can enhance healthy development; poor ones can impede it.

Good quality child care includes:

- Parent involvement;
- Qualified, responsive, nurturing, and reliable caregivers; and
- A stimulating, age-appropriate, safe learning environment.

Every Minnesota child deserves the highest quality early childhood experiences, but research shows that high quality early care and education programs have the greatest impact on children from low-income families. Investing in these



Courtesy Cushing Kiernat

children’s early education and helping their parents give them the right start can make an enormous difference in getting them ready to learn in Minnesota’s schools.

Impact on Minnesota’s Youngest Learners

Approximately 670,000 Minnesota children ages 12 and under spend some of their time in non-parental care during a typical week. In 2004, the state provided financial assistance for child care to about 56,000 children through Minnesota’s Child Care Assistance Program (CCAP).

After the 2003 budget cuts, many Minnesota children lost assistance to access child care. Between July 2003 and November 2004, more than 10,000 Minnesota children dropped out of CCAP. More than 40 percent of these children live in families accessing CCAP through the state’s

welfare-to-work program, the Minnesota Family Investment Program (MFIP). Department of Human Services data suggests the vast majority of these families are still working, and thus, their children still need care. However, **where the children now spend their days, and the quality of those settings, is mostly unknown.**

Where young children, particularly low-income, at-risk children, spend their days while their parents work is important. The Department of Education reports that less than 50 percent of Minnesota kindergarteners are fully prepared for kindergarten. But, a Department of Human Services study of children in accredited, or higher quality, child care centers illustrates how quality care can make a difference. Although the study has some limitations, the results are profound. Over 80 percent

Where Are the Children?

“Out of the 15 CCAP families we had, 10 families dropped out of care because of changes to the CCAP program—eligibility or co-pays.

I don’t know where most of those children spend their days. Three of the families have relatives or friends watching the children. One family used a teenage cousin to watch the children, and suffered a fire. Two of the families were single mothers who no longer are at their place of employment.”

—Child Care Center Director
Austin, Minnesota

of the children in the sample from accredited centers were assessed as “fully proficient,” or ready for kindergarten.

Results from low-income children matched those of their fellow students from higher income, more educated households. In addition, there were no differences based on race. This is in stark contrast to the racial disparities for Minnesota children that exist in most other domains, including primary and secondary education, health, child welfare, and criminal justice.

The findings are bittersweet, since the 2003 Legislature eliminated incentives for accredited child care providers to care for CCAP children. Over the past two years, fewer low-income children had access to child care that would make the difference for them as they start school. Quality early education can even the playing field for low-income children, giving them a fair start.

Fewer CCAP Resources Affects ALL Minnesota Children

There are fewer licensed child care providers statewide from which all Minnesota working families can choose. From December 2003 to

December 2004, the number of licensed providers statewide decreased by 550.

The impact is particularly acute in Greater Minnesota where families in higher income brackets use the same providers as CCAP families and providers are operating at a zero percent profit margin or at a loss. When a child care provider shuts down, every child in that program, not just the low-income children, experiences a disruption.

Access to quality care has suffered.

Providers across the state report being in financial crisis and having to take sharp measures to contain costs. For example, 26 percent of a sample of Hennepin County centers reduced staff benefits and salaries and 45 percent laid off staff. **These actions increase staff turnover and student-teacher ratios, which negatively impacts the quality of care for all children in these programs.**

Finally, when children reach elementary school, students who are not able to follow directions and pay attention divert resources from their classmates. In a national poll, 86 percent of kindergarten teachers said poorly prepared students in the classroom negatively affect the progress of all children, even the best prepared.

What Does “School Readiness” Look Like in Young Children?

A recent national survey of kindergarten teachers found that school readiness has less to do with mastering the ABCs and counting to 20, and much more to do with being emotionally and socially ready to learn academic material.

Kindergarten teachers want five- and six-year-olds who enter school to be able to:

- Follow directions;
- Pay attention; and
- Get along well with others.

Quality early care and education settings reinforce families’ efforts to teach young children these skills.

Parents: Missed Opportunity to Support Working Parents

For most parents, working outside the home is not a choice. In Minnesota today, 21 percent of children live with only one parent. Many two-parent households must have both parents in the workforce to make ends meet. Working parents want the best for their children—nurturing, safe environments in which the children can grow and learn. Sometimes neighbors and grandparents can help out, but many grandparents do not live close by or are in the workforce themselves and not available as consistently as working parents' schedules require. Consequently, many Minnesota families rely on early care and education programs.

But, child care is expensive—both for the providers who run programs and the parents who pay for them. In October 2004, the average annual cost of care ranged from \$5,000 and \$12,000, depending upon the child's age, type of care, and geographic location.

Working Minnesota families struggle with the costs. A May 2004 survey of people applying for Minnesota's welfare-to-work program showed that **child care was the number one reason parents with young children were applying for cash assistance.**



Figure 2 (see next page) illustrates the financial dilemma many parents face. The chart details a “no frills” monthly budget of a single parent with two young children needing full-time care. **Even at two and a half times the federal poverty line, this family cannot afford child care and all of their other basic needs in the metro area. They are doing slightly better than breaking even in Greater Minnesota.** Although they also would be eligible for limited assistance with health care, they would not be eligible for other forms of assistance, like housing or food support.

Impact on Minnesota's Working Parents

The 2003 budget cuts to CCAP shifted significant child care costs to working parents.

Many parents are no longer eligible for CCAP

The Department of Human Services estimates that 800 working Minnesota families were immediately cut off from child care assistance in July 2003 due to the CCAP eligibility changes. There is no way to estimate how many more families who would have been eligible for CCAP prior to the 2003 changes currently need financial assistance for child care.

“Our neighborhood child care program, operated out of a church in Richfield, has been an asset and a support for working families across all income levels in our community for over 30 years.

About one-third of the children served in our center receive Child Care Assistance payments.

Since 2003, the center lost its accreditation bonus, has struggled to retain and recruit enough families who can afford their co-pays, slashed staff, gave those remaining only a one percent pay raise (which was more than offset by the increase in health care premiums that was passed on to them), and cut the program’s budget to the core.

Tuition went up almost ten percent and still the program is operating at a significant deficit.

Even now, I don’t know how families are able to afford it—people are just barely hanging on. I am worried that the center will just go out of business. Then where will all the families go?”

—Non-CCAP Working Parent of Five- and Three-Year-Old Children

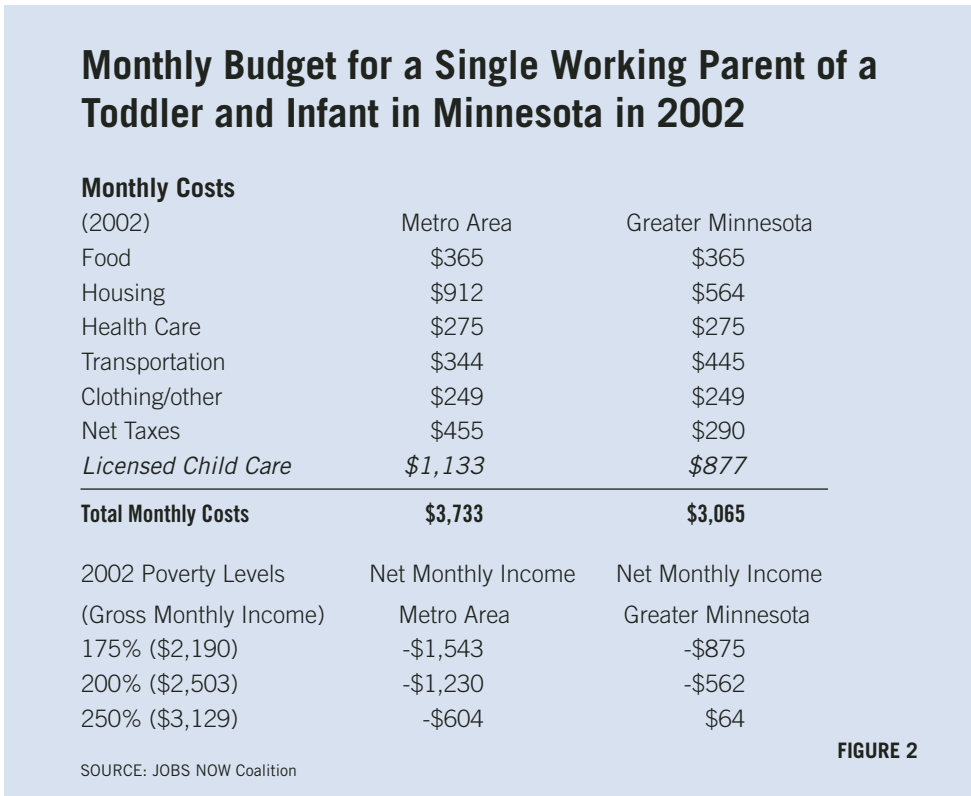
Many eligible CCAP parents can no longer afford to access the assistance

In 2003, the monthly amount parents pay in co-payments increased by as much as 100 percent for some families. Many CCAP families can no longer afford the co-payments. Child care subsidy workers across the state have seen many families suspend their CCAP cases since 2003—even though the families were still eligible—because they cannot afford the co-payment.

In addition, many CCAP parents are now required by their providers to pay a monthly “differential”—the difference in the rate between what the provider charges private pay families and what the state will pay for CCAP children. A recent survey of Minnesota child care providers indicated that a typical differential is \$100-\$200 per month. As one center director in Fergus Falls commented, “A hundred dollars a month is a lot for a single mom working at Taco Bell.”

Higher costs for parents mean less access to the provider of their choice

According to federal regulations for CCAP, parents must be able to choose from the same options of child care settings that are available to other families, from informal care by relatives or neighbors, to family child care homes, to child care centers, as long as those providers accept CCAP families. Parents who cannot afford the co-payment plus the differential must find a cheaper alternative. But there are fewer and fewer alternatives available. According to Department of Human Services’ estimates, if the state used *current* market rates to set reimbursement rates, CCAP families could choose from 82 percent of the providers statewide, as their rates would be at or below the rate the state will pay. **Instead, only 68 percent of the family child care market and 56 percent of the center-based providers are in this category and thus available to CCAP families who cannot afford more than their monthly**





Courtney Cushing Kiernat

“...A rate freeze is the strategy most likely to restrict access to both licensed family child care and center-based care.”

—Minnesota Department of Human Services

co-payments. Figure 3 (see next page) illustrates the loss across Minnesota between 2001 and 2004 of affordable child care for families of toddlers. A similar pattern exists across age groups and types of care.

Working CCAP parents have difficult budget choices

Child care costs have increased substantially over the past two years for CCAP families, but so have other necessities. Rising health care costs, fuel prices, and housing costs have also squeezed their budgets. Child care choices can be more flexible than other line items. Unfortunately, quality can be sacrificed for affordability.

Governor Pawlenty's 2005 Proposal

Governor Pawlenty's proposal to cut an additional \$70 million over the next two years by continuing the rate freeze will directly impact the ability of Minnesota parents with the least resources to access

child care for their children. The Minnesota Department of Human Services was asked to evaluate the impact of various ways to contain the state's child care expenditures. They concluded, *“...a rate freeze is the strategy most likely to restrict access to both licensed family child care and center-based care.”*

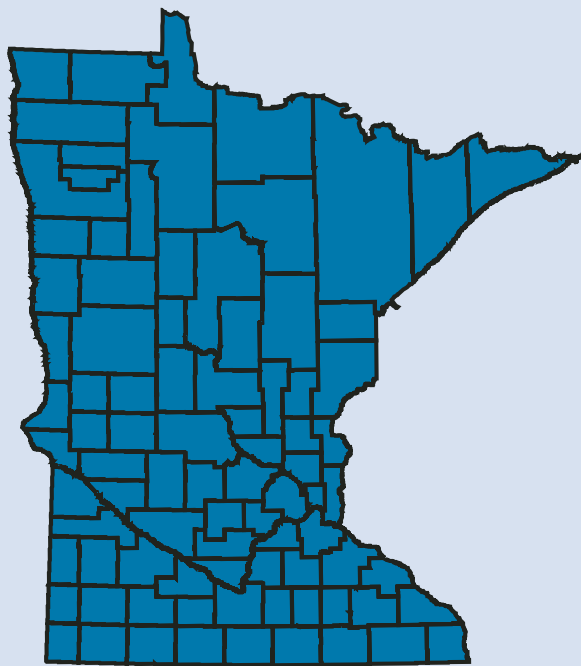
The state will realize savings because CCAP families will have less “purchase power” in the private market, and because fewer families will participate in CCAP as it will be out of reach financially for them. In fact, CCAP is now so restrictive that the program cannot find enough families who are eligible or who can afford to use the program, which has resulted in unused funds that are double the amount that is typical. The Governor's proposal relies on approximately 1,200 children from eligible MFIP families not accessing CCAP funds every month due to the freeze.

Accessibility Decreases

In **2001**, in every county in Minnesota, 75–100 percent of family care providers were affordable to CCAP families with toddlers, i.e. the cost of this care did not exceed the monthly co-payment plus the state reimbursement. By **2004**, that was true in only 13 counties.

Figure 3

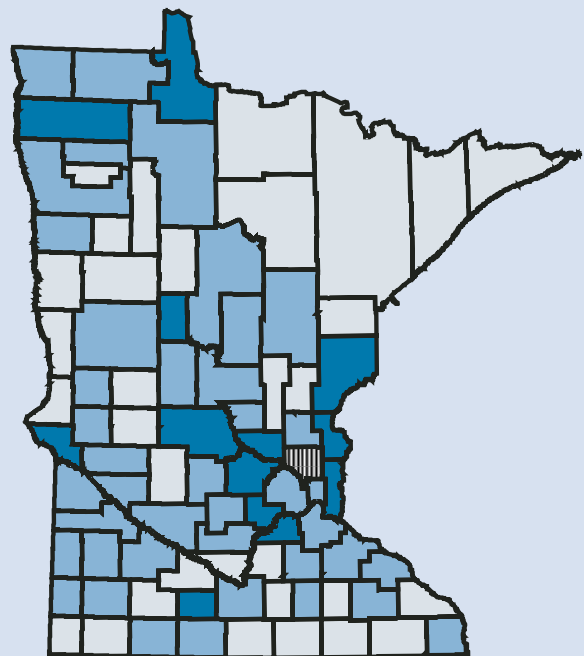
Percent of Family Care Providers Whose Rates Are Below the Maximum State Reimbursement Level for Toddlers



2001

Percent of Family Care Providers (for toddlers)

75–100%



2004

Percent of Family Care Providers (for toddlers)

75–100%

50–75%

less than 50%

no data

Data source: Department of Human Services. Map and analysis by CDF Minnesota

Providers: Missed Opportunity to Support Small Businesses

Licensed child care providers are small private business owners that employ more than 28,000 full-time equivalents and have gross receipts totaling \$962 million annually in Minnesota. They set their own rates and find their own clients. Some choose to accept children whose families receive financial assistance from CCAP. Of the licensed slots available for Minnesota children, only 10 percent of those in center care and 6 percent of those in family care are filled by CCAP children.

If providers accept CCAP children, they are reimbursed for the costs of those children's care up to a maximum set by the state. This maximum is determined as the 75th percentile of the private market rate in that provider's geographic region. Providers of most CCAP children receive a portion of their reimbursement directly from family's co-payments and the rest from their county of residence. Unlicensed providers are paid 80 percent of the licensed family child care rate.

Current reimbursement rates for CCAP children have no relation to rates in the current private market. Due to a freeze on reimbursement rates imposed by the 2003 Minnesota legislature, the current reimbursement rates are based on the private market rates from 2001. On



Courtney Cushing Kiernat

average statewide, current maximum reimbursement rates are at the 56th percentile for licensed family care and 48th percentile for centers.

If a provider's rate is greater than the maximum reimbursement rate, the provider has several choices—all of them detrimental to the provider's current clients and thus the business. They can:

- Stop caring for CCAP children;
- Charge CCAP families the difference in the rate, which these families can ill afford; or
- Lower the quality of care to contain costs and meet their monthly budgets.

Impact on Minnesota's Child Care Providers

“The average center is [financially] operating on the edge.”

—DHS *Cost of Child Care* report

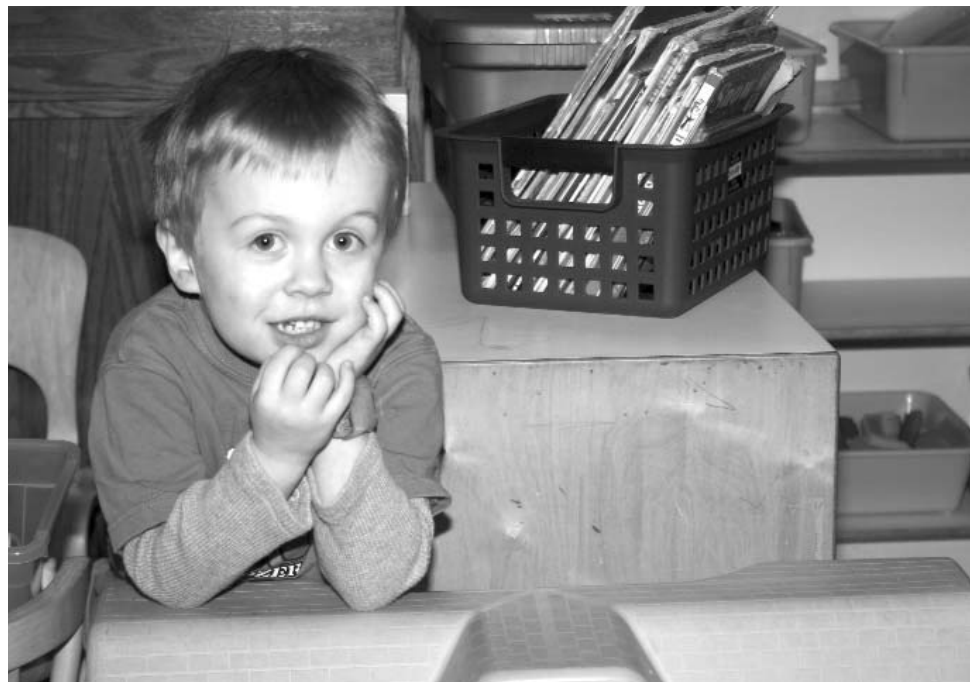
According to a recent report by the Minnesota Department of Human Services, the statewide average profit for child care centers is 3 cents per child per hour—less than 1 percent. When in-kind services are taken into account, child care centers are losing 12 cents per child per hour, on average.

Between July 2003 and January 2005, the number of providers Ramsey County reimburses for CCAP children decreased by 55 percent.

The sharpest decline was in the unlicensed providers who are often referred to as “family, friends, or neighbors.”

These providers are not licensed, but are able to be reimbursed for CCAP families so the CCAP parents can afford to work.

The current reimbursement rate for these providers in Ramsey County is about \$2 per hour. In July 2003, Ramsey County reimbursed more than 730 of them; by January 2005 that had shrunk to approximately 210.



Courtney Cushing Kiernat

Family child care providers are not doing much better

DHS estimates that the annual taxable income for a family provider working more than full-time is \$8,500 in Greater Minnesota and \$15,500 in the metro area.

Providers were also hit by the 2003 Minnesota legislature with high fee changes

Licensing fees for child care centers were increased as much as 300 percent, on average, and licensing fees of \$150 were imposed on family child care providers for the first time. In addition, many providers are now being charged up to \$100 annually by their county for performing criminal background checks. While fees, and even increased fees, may be reasonable, the timing of so many changes at one time was a disaster for child care providers.

Providers cannot contain costs any further

The primary costs for child care centers are labor, facility costs, and food. Reducing any of these costs puts children’s safety and care at risk. The average

child care center worker earns just \$16,410. These are some of the lowest wages in the state—just slightly above the wages of dishwashers.

Because of the 2003 freeze, the difference between what providers are being paid and what their actual costs are has grown. Child care businesses have no ability to absorb more financial loss.

Child care providers have gone out of business. Licensed family providers were already suffering in 2003, and Minnesota saw an increased trend in family provider closings following the 2003 budget cuts. From December 2003 to December 2004, the number of providers statewide decreased by 550. **The impact is particularly acute in Greater Minnesota.** For example, the southwestern part of Minnesota saw a seven percent decline in the availability of licensed family providers in that one year.

Businesses and Communities: Missed Opportunity to Improve Minnesota's Prosperity

Whether considering the stability, reliability, and quality of either the current or future workforce, competitive businesses and Minnesota communities must focus on the role of quality early care and education.

A strong child care infrastructure benefits businesses—large and small—as well as Minnesota's economy. The infrastructure enables employers to:

- Recruit employees;
- Reduce turnover and absenteeism; and
- Increase productivity.

Working parents are a critical sector of Minnesota's labor force, but their dual roles as workers and parents require them to constantly juggle schedules and obligations.

- Almost 25 percent Minnesota's working parents with young children report that child care problems have prevented them from taking or keeping a job.
- About 22 percent of Minnesota's working parents say they have been late for work, left early, or missed work in the past six months due to child care problems.

The costs of unstable child care to Minnesota's businesses are real. Employers bear costs when parents' child care arrangements are not accessible and reliable. According to a



Courtney Cushing Kiernat

national survey of human resource executives, unscheduled absenteeism cost small businesses an average of \$60,000 and large companies an average of \$3.6 million per year. Employee turnover is estimated to cost U.S. businesses 1.5 times the annual salary of a salaried employee and .75 times the annual wage of an hourly employee.

Certain sectors of Minnesota's economy rely heavily on working CCAP parents for their labor force. Specifically, health care and social assistance, retail trade, accommodation and food services, and the administrative and support services industries are more likely to employ parents who access CCAP funds.

Quality early care and education for the lowest income children improves the quality of the future workforce and is consequently one of the most efficient uses of today's tax dollars.

Economists Art Rolnick and Rob Grunewald of the Minneapolis Federal Reserve Bank assert that putting public resources into high quality early childhood programs for the lowest income children is one of the best returns on public investment—an overall 18 percent rate of return on investment, 17 percent of which is a public rate of return. They rely on two scientific findings:

- The development of young children's brains is shaped by the quality of their interactions with adults. While it is possible to

“Whether it is a lack of transportation, *reliable child care*, or recurring personal problems, ‘we are not seeing the same number of good, solid candidates in our worker pool.’”

—Branch manager from temporary employment services agency

As cited in article on labor shortage in the Federal Reserve Bank of Minneapolis’ January 2005 *fedgazette*, emphasis added.

“The early care and education structure currently in place is not up to the task, either in physical capacity or educational quality.”

—Minnesota School Readiness Business Advisory Council

have a positive influence on a child’s development later in life, it is much less difficult and costly to create a healthy foundation early on.

- At-risk children who were in high quality early childhood programs have significantly better behavioral, social, and cognitive outcomes throughout their lives than their peers who were not in such programs.

The economic analyses show that public investments produce public cost savings because of reduced incidence of:

- Grade repetition and special education;
- Criminal behavior and punishment;
- Welfare and related poverty costs.

Recognizing the public good that can result, the Minnesota School Readiness Business Advisory Council (MSRBAC), a group of executives from more than 100 of Minnesota’s leading companies, advocates for more investments in early childhood. Their 2004 task force report concludes that as the trend toward global competition increases, lagging early childhood preparation threatens the continued competitiveness of Minnesota businesses as well as Minnesota’s quality of life.

Impact on Minnesota

It is difficult to assess how the 2003 changes to CCAP have affected Minnesota’s businesses and communities. What we do know is that the current child care infrastructure is precarious, providers are operating on the edge, and many parents can no longer access affordable care. As the Department of Human Services notes in their recent report, “... we don’t know at what point this [loss of access to child care] will have an effect on job stability for families or school readiness for children.”



Analyses of demographic and employment trends suggest Minnesota’s workforce will have an increased need over time for a strong early care and education infrastructure. Two trends are particularly relevant:

- The working parent workforce is expected to continue growing.
- Significant job growth will occur in the sectors that currently employ the majority of CCAP families.

The increasingly competitive knowledge-based global economy will demand more of tomorrow’s workforce. Economists and businesses have made it clear: To invest public funds efficiently and wisely and get Minnesota’s future workforce ready to compete, Minnesota needs a strong early childhood infrastructure *now*. The state must help sustain that infrastructure.

Conclusion: Opportunities for ALL Minnesotans

Children, parents, child care providers, businesses, and the broader community—all Minnesotans are impacted when the infrastructure that supports our youngest children is dismantled. Minnesotans must take action to stop the erosion of that infrastructure. We propose the following actions during the 2005 legislative session.

Allow More Low-Income Working Families Access to Child Care Assistance

1. Eligibility and Parent Co-Payment

Increase family income eligibility to allow families earning up to 250 percent of the federal poverty guidelines to enter CCAP. Make low-income working parents' contributions (including the CCAP co-payments as well as any differential rate costs providers need to require) affordable.

2. Provider Reimbursement

Thaw the freeze and reimburse child care providers at a rate at or below the 75th percentile of *current* private market rates. The rate freeze imposed in 2003 has wreaked havoc for child care businesses and weakened the quality and viability of the child care industry.

Increase Access to Quality

3. Accreditation Incentive

Research shows that providers are more likely to seek accreditation when they are able to realize a rate



increase of 15 percent or more, based on obtaining that accreditation. Reimburse accredited child care programs at a rate that is at least 15 percent higher than the maximum child care assistance reimbursement rate. This supports quality programs and, in turn, improves the school readiness of all of the children served by those programs.

4. Minnesota Early Learning Fund

Research shows that at-risk children who attend high quality early childhood programs are better prepared for school and life. The State should match private funds to create the Minnesota Early Learning Fund to implement a voluntary quality rating system for early childhood programs and demonstrate successful approaches for serving low-income

children and increasing quality of programs for all children.

Provide Relief to Struggling Small Businesses

5. Provider Fees

During the past two years, child care reimbursement rates have been frozen, while fees have increased exponentially. This has added to the financial strain felt by child care businesses, further limiting families' access to quality child care options. Suspend child care license and background study fees for the next biennium and take responsibility for defraying the cost of any licensing revenue lost by counties.

Appendix A: 2003 CCAP Budget Cuts and Program Changes

The 2003 Minnesota Legislature made the following policy changes to the Child Care Assistance Program (CCAP). These changes resulted in the elimination of \$86 million in resources for child care assistance in the 2004-2005 biennium and the elimination of \$51 million in resources in the 2006-2007 biennium.

Entrance income eligibility lowered from approximately 290 percent of the poverty guidelines to 175 percent

In other words, eligibility went from 75 percent to 44 percent of Minnesota's median income. The nationwide average income eligibility is 59 percent of a state's median income. Prior to 2003, Minnesota ranked 4th amongst states for income eligibility for child care assistance. **Minnesota now ranks 33rd for entrance levels, below Mississippi. Mississippi is the lowest-ranking state for overall child well-being.** Family income eligibility to exit CCAP was also reduced to 250 percent of the poverty guidelines; Minnesota ranks 7th in the nation for exit levels.

Family co-payments increased

Families experienced a steep increase in co-payments—by as much as 100 percent for some. Current co-payments for all other families range from 3-22 percent of the family's gross income. Families who earn less than 75 percent of the poverty line have no monthly co-payment.

Reimbursement rates to providers were temporarily frozen at 2001 rates

Current reimbursement rates for private providers of CCAP children are not related to current private market rates. In fact, the state freeze did nothing to contain child care providers' costs—child care business costs grow as their rents increase and their employees need cost-of-living increases. The freeze only reduced the state's commitment to helping Minnesota children access care.

Provider fees increased

Licensing fees for child care centers were increased as much as 300 percent, on average, and licensing fees of \$150 were imposed on family child care providers for the first time. At the same time, counties may now charge up to \$100 annually for performing criminal background checks for providers.

Quality incentives eliminated

A key indicator of quality is “accreditation” by the National Association for the Education of Young Children and other accrediting bodies. Prior to 2003, state policy encouraged child care providers to attain this level of quality and serve CCAP children by giving accredited providers a slightly higher reimbursement rate. This increased quality for all Minnesota children in accredited care since accredited programs serve non-CCAP children as well. But in 2003, Minnesota withdrew its commitment to encouraging high quality care—the accreditation incentive was eliminated.

Key Findings

1) The 2003 legislative changes put Minnesota in the bottom third nationwide in terms of child care assistance eligibility. This, combined with dramatic increases in out-of-pocket costs for families and frozen payments for providers, has made the program so restrictive that working families are finding it extremely difficult to access child care assistance.

- 10,000 fewer Minnesota children accessed child care assistance between 2003 and 2004; data indicate that their parents are still working and financially in need of assistance.
- From December 2003 to December 2004, the number of licensed providers statewide showed a net decrease of 550.
- In 2001, more than 75 percent of child care programs in all 87 Minnesota counties charged rates at or below the maximum rate paid by the state—in other words, child care assistance families had access to more than 75 percent of all child care programs without paying an additional fee on top of their co-payment. This met the guidelines suggested by the federal government. In 2004, only 13 counties were left with more than 75 percent of child care providers in that county charging rates financially accessible to child care assistance families.
- Child care assistance has become so restrictive that the unused funds are double the amount that is typical.

2) Governor Pawlenty proposes \$70 million in child care cuts for the 2006-07 biennium. This is on top of \$51 million in child care cuts for 2006–2007 biennium as a result of the 2003 changes.

The governor's proposal highlights yet a further retreat from Minnesota's commitment to young children and takes the most harmful path for families in terms of spending reduction options.

- The Department of Human Service's recent "Cost of Care" report states that "*...a rate freeze is the strategy most likely to restrict access to both licensed family child care and center-based care.*"

3) Economists at the Federal Reserve Bank of Minneapolis view investment in high quality early care and education programs for low-income children as one of the most efficient uses of tax dollars, citing a 17 percent public return. A consortium of 100 leading Minnesota businesses (the Minnesota School Readiness Business Advisory Council) agree, highlighting the close correlation between quality early childhood programs and the future of Minnesota's workforce, economy and quality of life.

4) Quality child care reinforces families' efforts to provide the foundation for children's development, prepares children for kindergarten, and can level the playing field for low-income children.

- A recent study by the Department of Human Services that evaluated the school readiness of children who attended 22 accredited child care centers in Minnesota found that more than 80 percent of children in the sample were "fully ready for kindergarten"—compared to less than 50 percent in the general Minnesota population.

- Brain research studies consistently find that the first five years of life are some of the most critical for development. During this time, high quality interactions with adults enhance healthy development; poor ones impede it.

5) Parents need affordable, quality child care to work.

- Recent studies found that child care was the number one reason Minnesota families with children under the age of six applied for MFIP.
- Child care problems have prevented 25 percent of Minnesota's working parents from taking or keeping a job.

6) Investing in child care assistance positively correlates with reducing the need for cash assistance.

- One of the goals of welfare reform was to move families from welfare to work. As families make this transition, MFIP expenditures decrease, while child care expenditures naturally increase. Child care is a key component to keeping parents in the work force.

7) Licensed child care providers—a private industry comprised mostly of small businesses—are barely staying afloat.

- The average child care center in Minnesota is operating at a zero percent profit margin or at a loss, while the average family provider is making less than \$15,500 in the metro and \$8,500 in Greater Minnesota.

References

- Boushey, H. (2002). *Staying Employed After Welfare: Work Supports and Job Quality Vital to Employment Tenure and Wage Growth*, Economic Policy Institute.
- Chase, R. and E. Shelton. (2001). *Child Care Use in Minnesota: Report of the 1999 Statewide Household Child Care Survey*. Wilder Research Center.
- Children's Defense Fund Minnesota. (2003). *Participation in Minnesota's Work Supports*.
- Greater Minnesota Day Care Association. (2004). *Centers in Change: Findings from a Survey of Hennepin County Child Care Centers*.
- Jeffreys, M, and E. E. Davis. (2004). *Working in Minnesota: Parents Employment and Earnings in the Child Care Assistance Program*. Minnesota Child Care Policy Research Partnership.
- JOBS NOW Coalition. (2004). JOBS NOW Wage and Budget Calculator.
- Mason-Dixon Polling and Research. (2004). *National Kindergarten Teacher Survey: A National Survey of Kindergarten Teachers on the Preparedness of our Nation's Youngest Students*. Fight Crime Invest in Kids.
- Minnesota Child Care Resource and Referral Network. (2005). Original data.
- Minnesota Department of Human Services. (2005). *Cost of Child Care: Legislative Report on Cost Containment Options in the Child Care Program*.
- Minnesota Department of Human Services. (2004). Original data.
- Minnesota Department of Human Services. (2004). *Reasons for Application to the Minnesota Family Investment Program: Baseline Data*.
- Minnesota Department of Human Services. (2005). *School Readiness in Child Care Settings: A Developmental Assessment of Children in 22 Accredited Child Care Centers*.
- Minnesota House of Representatives Research Department. (2003). *Funding to Support Child Care Assistance: Federal and State Appropriations and Tax Expenditures*.
- Minnesota School Readiness Business Advisory Council. (2004). *Ready for School? Policy Task Force Report*.
- National Economic Development and Law Center. (2003). *The Economic Impact of the Child Care Industry in Minnesota*.
- Parrott, S., Horney, J., Shapiro, I., Carlitz, R., Hardy, B., and D. Kamin. (2005). *Where Would the Cuts Be Made Under the President's Budget? An Analysis of Reductions in Education, Human Services, Environment, and Community Development Programs*. Center on Budget and Policy Priorities.
- Ready 4 K. (2004). *Early Learning Left Out: Public Spending on Children in Minnesota*
- Rolnick, A. and R. Grunewald. (2005). *Early Childhood Development: Economic Development with a High Public Return*. Federal Reserve Bank of Minneapolis.
- Schweinhart, L. J. (2004). *The High/Scope Perry Preschool Study Through Age 40*. High/Scope Educational Research Foundation.
- Shankoff, J. P. (2004). *Closing the Gap Between What We Know and What We Do*. Ounce of Prevention.
- Wirtz, R. A. (2005). Ready, Set, Dance: As Job Creation Gets Back On its Feet, Both Workers and Employers Adjust to the Rhythm and Laws of Supply and Demand. *Fedgazette*, 17 (1), Federal Reserve Bank of Minneapolis.

Notes



Children's Defense Fund

Children's Defense Fund Minnesota

University National Bank Building
200 University Avenue West, Suite 210
St. Paul, MN 55103
651-227-6121 • www.cdf-mn.org



Child Care WORKS

212 2nd St SE, Suite 116
Minneapolis, MN 55414
612-455-1055
www.childcareworks.org