ISSUE BRIEF

Family and Early Childhood Education Deliberations in Minnesota: Should We Consolidate State-Supported Child Care Assistance Programs?

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*Conference committee deliberations for Minnesota=s FY 2002-2003 family and early childhood education programs included discussions on the oversight of early childhood education programs, the expansion of youth after-school enrichment programs and the auditing of Adult Basic Education programs. While changes in law materialized from each of these discussions, the one topic that commanded a lion=s share of analysis and debate**B** a consolidated system of state-supported child care assistance programs**B** is notably absent from the omnibus budget act for family and early childhood education programs.*

How does Minnesota currently provide state-supported child care assistance? What roadblocks hampered the efforts to consolidate these programs during the 2001 Legislative Session? Will the state legislature revisit this issue in the future? The following discussion attempts to present the issues confronting child care consolidation as they exist in Minnesota today.

State-Supported Child Care Assistance in Minnesota

Minnesota currently operates four state-supported child care assistance activities:

1. **Minnesota Family Investment Plan (MFIP) Child Care Assistance** subsidizes the child care costs of families receiving MFIP cash assistance or who are transitioning off of cash assistance. MFIP, Minnesota=s welfare-to-work strategy, provides services and financial support to families with incomes of up to 120% of the federal poverty guidelines, or approximately $20,460 for a family of four during fiscal year 2002. As long as a family participates in the MFIP program or its transitional services, child care assistance is guaranteed.

2. **Basic Sliding Fee (BSF) Child Care** provides a child care subsidy to working families who are not receiving MFIP cash assistance and whose annual income remains below 75% of Minnesota=s state median income, or approximately $50,355 for a family of four during fiscal year 2002. The amount of the BSF subsidy varies with income level, family size and program demand within the county of residence.

3. **HESO** (Higher Education Services Office) **Post-Secondary Child Care Grants** subsidize the child care costs of students who attend an institution of higher learning. These grants of up to $2,000 per year are awarded to eligible students as a financial aid instrument.

4. **Dependent Care Tax Credit (DCTC) Program** permits eligible tax filers with child care expenses to file for a credit on their state income tax form. The maximum credit per household is $720 for one child or $1,440 for two or more children.

Though these programs provide relief to a number of families with child care expenses, some families may receive assistance from more than one activity while other families receive no assistance at all.

Child Care Assistance by the Numbers

Preliminary information about child care assistance, including who receives it, what is the average cost per subsidy, and who is waiting to be served, is essential to the analysis of program consolidation. Of the four state-supported child care assistance activities, the Minnesota Family Investment Plan (MFIP) and the Basic Sliding Fee (BSF) programs provide the highest level of direct service assistance to families using child care services. Table 1 (below) provides a five-year summary of the number of cases and the annual average direct service cost for each MFIP, MFIP Transition Year and BSF programs. In FY 2000, 12,850 families received MFIP and MFIP-TY assistance with an average direct service cost per family of $6,482, and a total program cost of $83.3 million. In that same year, 13,407 families received BSF assistance with an average direct service cost per family of $5,102, and a total program cost of $68.4 million.

Table 1: MFIP, MFIP Transition Year (TY), and Basic Sliding Fee (BSF)
Annual Number of Cases and Direct Service Cost
Fiscal Years 1997 to 2001

	A		*B*		*A+B*		*C*		*A+B+C*	
FY	**MFIP**		**MFIP-TY**		**MFIP -TOTAL**		**BSF**		**TOTAL**	
	No. of Cases	**Direct Service Cost**	**No. of Cases**	**Direct Service Cost**	**No. of Cases**	**Direct Service Cost**	**No. of Cases**	**Direct Service Cost**	**No. of Cases**	**Direct Service Cost**
1997	6,286	$4,112	2,725	$4,510	9,011	$4,233	10,241	$3,877	19,252	$4,043
1998	7,329	$4,381	2,960	$5,337	10,289	$4,656	13,260	$4,433	23,549	$4,530
1999	10,701	$5,786	2,597	$5,790	13,297	$5,787	14,010	$4,897	27,307	$5,330
2000	9,994	$6,725	2,856	$5,631	12,850	$6,482	13,407	$5,102	26,257	$5,778
Estimates										
2001*	*10,495*	*$7,270*	*3,414*	*$5,913*	*13,909*	*$6,937*	*16,581*	*$5,357*	*30,490*	*$6,078*
2001**	*9,328*	*$8,093*	*2,645*	*$6,207*	*11,973*	*$7,676*	*14,455*	*$6,036*	*26,428*	*$6,776*

* Feb 2001 Forecast, Department of Children, Families and Learning
**6-mo. FY2001 (actual figures annualized), Department of Children, Families and Learning, April 12, 2001

This data also reveals that while caseloads for each program fluctuate from year to year (note: More than 1,000 *fewer* families were served in FY 2000 than in FY 1999), the annual average direct service cost per family has been steadily increasing. Total annual average direct service costs (MFIP + TY + BSF) have grown from $4,043 in FY 1997 to $5,778 in FY 2000, a 43 percent increase in four years.

The two remaining state-supported child care assistance activities, HESO Post-Secondary Child Care Grants and Dependent Care Tax Credit (DCTC) Program, have had significant but more limited program results. The HESO grant program is much smaller in size and scope than MFIP or BSF. In FY 2000, the HESO grant program served 2,659 students with an average grant amount of $1,500. Program funding for the year totaled $4.7 million. The DCTC program, while far-reaching in scope, operates without regard to a family=s need for child care or the weekly cost of child care. It simply provides relief from the high costs of child care through the use of a once-a-year tax credit. In calendar year 1999, a total of $11.7 million in tax credits were received by 35,893 taxpayers.

Legislative Interest in Consolidated Child Care

The Legislature has sought to improve the structure and delivery system of Minnesota=s child care assistance programs for years. In 1995, Minnesota Session Laws (*Chapter 178, Article 2, Section 44*) required the commissioner of human services to Aexamine the feasibility of implementing a seamless child care system statewide by July 1, 1996.@ The response to this directive was a report, *Seamless Child Care System,* which identified five guiding principles to simplify administration and improve service. However, changes in federal programs, particularly the creation of the Temporary Assistance for Needy Families (TANF) block grant, and the formation of the Department of Children, Families and Learning, caused child care consolidation to be re-evaluated in terms of program goals and funding. Full program consolidation was never achieved.

As funding for child care assistance continued to increase, legislative interest did not wane. In 1999, Minnesota Session Laws (Chapter 205, Article 1, Section 66) requested another study, this time requiring the commissioner of children families and learning to Aidentify potential obstacles ... and to study ways to achieve this (child care) consolidation during the 2002-2003 biennium.@ The agency responded with a 21-page report, *Consolidating Child Care Assistance Programs***,** that included a Acombined@ model for consolidation; this model was later submitted for consideration in the governor=s FY 2002-2003 budget proposal.

Executive Proposal for Child Care Consolidation

Seeking to improve the allocation of resources, to support incentives for families to become self-sufficient, and to provide a more uniform approach to assisting families in similar circumstances, Governor Jesse Ventura=s FY 2002-2003 budget proposal (in the 2001 legislative session) included a plan for consolidated child care. The focus of the executive plan was to assure child care assistance for Minnesota=s neediest families, especially for families who are eligible for MFIP cash benefits but who choose not to apply for cash assistance. (In some Minnesota counties, the presence of waiting lists for BSF child care assistance have caused these families to accept MFIP cash assistance as a way to access child care assistance benefits in their county of residence.) Essentially, the consolidated plan sought to guarantee state-supported child care services to eligible families with incomes of up to 150% of federal poverty guidelines (FPG) or 38% state median income (SMI), which is about $25,575 for a family of four, and to continue assistance until family income reaches 300% FPG or 75% SMI. (about $51,150 for a family of four). In addition, the consolidated plan sought to serve about the same number of families already projected for the MFIP Child Care Assistance and the BSF programs combined.

The implementation cost of the governor’s original consolidation plan, which included spending for MFIP, BSF, HESO and DCTC, was more than the anticipated appropriations identified for these four existing child care programs for the biennium and beyond. The plan needed an additional $44.2 million in the FY 2002-2003 biennium (See Table 2, Child Care Consolidation Funding Summary, column F) and $94.6 million in the FY 2004-2005 biennium.

Table 2: Child Care Consolidation Financing Resources
Current Biennium, November 2000 Forecast and February 2001 Forecast

	Current Biennium			**Governor’s Budget Recommendation January 2001**			**Governor’s Recommendation February 2001 Forecast Revisions**		
	A	B	C	D	E	F	D-REV	E-REV	F-REV
	SFY00	SFY01	FY 00-01	SFY02	SFY03	FY 02-03	SFY02	SFY03	FY 02-03
Total Current Resources	$159,451	$195,290	$354,741	$208,796	$207,301	$416,097	$221,451	$219,149	$440,600
Consolidation Cost	NA	NA	NA	$226,545	$233,704	$460,249	$226,942	$234,222	$461,164
New Resources Needed	$0	$0	$0	$17,749	$26,403	$44,152	$5,491	$15,073	$20,564
				ORIGINAL CONSOLIDATION COST GAP			**NEW GAP TO FILL**		

Early adjustments to this proposal, which trimmed the consolidation to include just three programs (MFIP, BSF and HESO) and added new revenues from the Department of Finance’s February 2001 forecast, reduced the gap in financing to approximately $20.6 million in FY 2002-2003 (See Table 2, column F-Rev) and $75.6 million in FY 2004-2005. Yet, these amounts remained above anticipated direct service child care spending levels of $440.6 million for FY 2002-2003 (already up 24% above FY 2000-2001 expenditures of $354.7 million) and $426.7 million in FY 2004-2005 (down 3.2% from FY 2002-2003 levels).

Legislative Response to the Governor’s Plan

The Governor’s plan for child care consolidation generated mixed reactions from state legislators. All members of the House and Senate committees that oversee early childhood education issues applauded the efforts to simplify client access to these programs and to make them more equitable and accountable. However, some legislators wanted more money to pay for an expansion of child care services, or training to improve provider skills, or wage supplements to curtail child care worker turnover. Some legislators wanted to fully integrate child care programs with early childhood education programs. And some legislators wanted a more accurate accounting of moneys spent to date before approving additional spending. One of the most pressing questions was, AHow can consolidated child care cost almost $100 million more (over the next four years) and, at the same time, potentially serve fewer people?@ (See Table 1, FY 2001 estimates.)

Understanding the Issues Impacting Child Care Program Consolidation

The House version of the FY 2002-2003 budget continued to fund child care programs with separate appropriations, while the Senate version included the governor=s proposal for consolidating child care. The ensuing conference committee discussions revealed a complicated subject matter consisting of at least five different topics of debate. These issues included:

1) Administrative consolidation,
2) Funding methodology through forecasted or direct appropriations,
3) Definitions of income eligibility using state median income (SMI) or federal poverty level (FPG),
4) Eligibility thresholds for participation, and
5) Set-aside provisions to assure service to specific groups of clients.

1. Administrative Consolidation of Programs

The Governor=s consolidation proposal received by the conferees sought to merge Minnesota=s two largest child care programs, MFIP Child Care and Basic Sliding Fee. Both of these programs are currently administered by the Department of Children, Families and Learning (CFL). The benefits of the proposal included a blending of program resources to serve both MFIP eligible and low income families. This blending would have allowed excess MFIP funds to be used for BSF participants, thus streamlining access to all available child care funds. A single program structure within CFL would also offer simplified administration and ease of client access, eliminating the need to migrate from one program to another.

Limitations of the consolidation proposal included additional implementation costs of $20.6 million above anticipated resource levels for the FY 2002-2003 biennium, and another $75.6 million in the FY 2004-2005 biennium. This fiscal impact was especially noteworthy when 1) an examination of base-level funding for the FY 2002-2003 biennium already included an increase of $45 million above FY 2001 child care spending levels, and 2) the net number of *additional* families to be served through this consolidation would be negligible. In addition, if funding was found to be insufficient, waiting lists would still have occurred.

2. Funding Methodology

Forecasted Program Funding

The Governor=s consolidation proposal would have required general fund resources for consolidated child care to be forecasted, with a maximum growth limit of ten percent per biennium. The preliminary cost impact of this proposal was estimated to be $265 million for the FY 2002-2003 biennium. The benefits of a forecasted program include a commitment of state funding to pay for child care assistance for all eligible families requesting this service. Forecasted funding would grow or shrink with each state economic forecast, depending on expected need. While forecasted funding does not create an entitlement, it does anticipate changes in cost, and thus creates an *expectation* of funding to match need. Ideally, as long as funds are available, there would be no waiting lists for child care assistance.

Limitations of a forecasted program include the ability to predict future behavior through the reliance on good information. When compared to actual experience, recent MFIP childcare forecasts have lacked accuracy, including large variances in the costs of child care and in the number of families to be served. For example, general fund spending for MFIP child care during FY 2000 was projected to grow by $22 million above FY 1999 levels (an increase of 29 %) to serve more than 3,600 additional MFIP families (a caseload increase of 24% above FY 1999 levels). Actual FY 2000 figures reflected a 500-family decrease in MFIP caseloads from FY 1999 levels, and a $20 million general fund cost increase above FY 1999 spending levels. The Governor=s consolidation proposal would have more than doubled the size and scope of the MFIP child care assistance program. Several legislators had concerns about forecasting a program of this magnitude, especially a program with a history of forecasting problems.

Non-Forecasted Program Funding
The Governor=s consolidation proposal (which used forecasted funding as the vehicle to pay for all child care assistance) would have eliminated the need for a separate, non-forecasted appropriation to support BSF child care. The benefits of a separate, non-forecasted appropriation would include a set amount of funding for a specific purpose, regardless of changes in the economy or fluctuations in the need for child care.

Limitations of a non-forecasted appropriation include the failure to match funding with need, especially in periods with notable changes in demand. The BSF program has lacked adequate funding since FY1995, producing waiting lists for thousands of families seeking child care assistance. In September 2000, more than 3,400 families were waiting for program assistance.

3. State Median Income (SMI) or Federal Poverty Level (FPG)
The Governor=s consolidation proposal sought to use state median income to define eligibility for child care assistance. State median income is an annually adjusted Agauge@ that reflects the impact of the state=s economy on a family=s wages and living costs. In recent years, Minnesota=s healthy economy has raised the state median income, thus allowing higher levels of family income (and thus, more families) to be eligible for child care subsidies.

The limitations of using SMI include the frequent adjustments in program eligibility that accompany higher or lower levels of income. During times of growth, higher levels of income become eligible for the program subsidies, thus increasing the volume of state spending for the program. If a program operates from within a non-forecasted appropriation (meaning no additional moneys can be spent), the use of SMI would result in increased waiting lists of program backlog. During times of decline, program eligibility shrinks as income levels are reduced, and applicants once eligible for program benefits are removed from waiting lists.

An alternative to the SMI standard is the use of federal poverty guidelines (FPG). Federal poverty guidelines are the basis by which the United States government allocates federal funding for numerous activities, including MFIP Child Care. Minnesota=s public sector child care assistance programs are scheduled to receive over $174 million in federal funds during the

FY 2002-2003 biennium. Child care assistance is currently forecasted using the FPG standard, which is then converted into SMI statistics. Since the FPG is a national average, annual rate changes are more modest and predictable than SMI.

4. Eligibility Requirements - Income Thresholds

The Governor=s consolidation proposal sought to change current program eligibility requirements to provide services to families with incomes of up to 150% FPG or 38% SMI (equal to about $25,575 for a family of four) for program entry and 300% FPG or 75% SMI (equal to about $51,150 for a family of four) for program exit. Minnesota=s current income thresholds permit assistance for families with incomes of up to 300% FPG or 75% SMI for program entry and exit. These thresholds are among the most generous in the nation.

Changing income thresholds to determine eligibility would allow public subsidies to pay for services for the most needy families upon entrance to the program, and allow a continuity of service until the family=s income rises beyond 300% FPG or 75% SMI. It would reduce the number of program participants for the state because families with incomes greater that 150% FPG or 38% SMI would no longer be eligible to enter the program. (For families currently on BSF waiting lists, the impact of this change is unclear; the time of application to the program may or may not be considered as a valid point of entry for program services.)

Maintaining current income thresholds in a consolidated, forecasted program would likely produce significant increases in program participation and program expenses. FY 2002 estimates of the number of potential families with incomes of up to 300% FPG or 75% SMI exceed 42,000 families per year, which reflects an increase of 15,600 families or 59% above the 26,400 families that were served in FY 2001. Estimates of program costs (based upon CFL=s estimate for FY 2002, Attachment K to Consolidation Report) would be approximately $239 million for FY 2002, a single-year increase of $54 million or 29% more than FY 2001 expenditures of $185 million.

An amendment to the Governor=s proposal sought to begin program entry at 150% FPG or 38% SMI and over a period of five years, gradually raise entry thresholds to 200% FPG or 50% SMI in a forecasted program. While a specific analysis is not available, the biennial cost for this scenario would exceed the estimated cost of the Governor=s proposal because the parameters for family income are more generous.

5. Set-Aside Provisions

The Governor=s consolidation proposal, which employed a forecasted funding format, offered to blend all sources of funding for child care assistance, including moneys earmarked for specific purposes during the 2000 Session (e.g. MFIP Social Services and additional MFIP Transition Year funds). Essentially, the need for set-aside funding would have been eliminated because the families meant to be served by these funds would have been included in eligibility parameters of the forecasted program. While a blending of resources for consolidation was a logical plan of action, the additional amount of money needed to achieve this goal failed to gain support among a majority of conference committee members.

Program set-asides, most commonly used when financing is limited, designate a specific amount of money within an appropriation for a specific purpose. When applied to child care assistance, these earmarked funds give priority to certain families to assure program access, often to ease the transition between programs so that assistance can be available until a family is self-sufficient. Of course, the existence of a program set-aside reduces the amount of funding available for general program use.

House Proposal for Child Care Consolidation

As an alternative to the Governor's proposal to consolidate child care, the House offered a more modest consolidation plan that was intended to be a compromise between Minnesota's existing child care assistance programs and the full implementation of consolidated child care. Recognizing available funding of $449.6 million for the FY 2002-2003 biennium, the plan sought to 1) guarantee service for Minnesota's neediest families (those with incomes of up to 150% FPG) using a combination of forecasted funding and a BSF funding set-aside, and 2) provide service for families with incomes between 150% and 250% FPG using a direct appropriation. The House proposal (see Table 3 on the next page) would have added over 4,000 families to the existing 12,850 families contained in the forecast for child care assistance, guarantee funding for another 2,400 families with incomes between 120% and 150% FPG, and provide subsidies for another 13,100 families with incomes between 150% and 250% FPG. Program exit would have been reduced to 250% FPG or 70% SMI from the current level of 75% SMI; this reduction would have made an estimated 2,400 families ineligible to receive child care assistance. Of the 32,463 families projected by CFL to receive assistance in FY 2002, a total of 19,285 families or 59% would have been guaranteed to receive a child care subsidy.

Similar to the Governor's plan for forecasted child care assistance, the House Proposal offered child care consolidation, but it sought to use only anticipated revenues for existing child care programs. Several legislators felt that the House plan reduced the eligibility parameters for guaranteed child care assistance to unacceptably low levels. There were also concerns that the continued use of direct appropriations and set-aside funds would inhibit progress toward a truly streamlined system of publicly-funded child care assistance. In the end, the proposal failed to gain support among a majority of conference committee members.

Table 3: Child Care Consolidation - House Proposal
Comparison of Number of Families Served
Using Actual and February 2001 Forecast Figures

Income (FPG)	SFY 2000 Actual Total	MFIP	TY	BSF
< 100%	12,835	9,994	428	**2,413**
100% to 120%	1,917		308	**1,609**
121% to 149%	2,876		463	*2,413*
150% to 199%	5,661		1,371	4,290
200% to 250%	2,967		286	2,681
	26,256	**9,994**	**2,856**	**13,406**

Item 2: Families with incomes up to 120% FPG not in forecast

Item 3: families eligible for set-aside

Item 1: Families in Current Forecast

TABLE SUMMARY

Forecast for families at 120% FPG or below:		
Item 1: Total number of families in current forecast = MFIP+TY = 9,994 + 2,856=	12,850	
Item 2: Additional families at 120% FPG not in current forecast = 2,431 + 1,609 =	4,022	
Total number of families to be included in forecast		16,872
Eligibility for Child Care Set-Aside:		
Item 3: Total number of families between 120% and 150% FPG	2,413	
TOTAL NUMBER OF FAMILIES AT OR BELOW 150% FPG	**19,285**	

or 59% of the 32,463 families projected to receive assistance in FY 2002

Looking Forward

Many questions regarding the consolidation of state-supported child care assistance programs remain unanswered. Despite first glances, the consolidation of Minnesota's child care programs is not simply an administrative union of programs for children. Rather, it is a complicated matter that impacts 1) families and their ability to be self-sufficient, 2) children and their opportunities for development, 3) child care providers all over the state, and 4) local, state and federal government finances.

Efforts to improve the administrative structure and delivery system of Minnesota's child care assistance programs remain a priority for state government. Improving the allocation of child care resources, devising more uniform access to child care assistance and helping families to become self-sufficient are goals that will benefit Minnesotan families and communities.

Will the Minnesota Legislature revisit this issue in the future? Given recent changes in the national and state economies, more pressing budgetary issues will likely lead the 2002 legislative session. However, efficient government program administration is always of interest to the legislature. Any true plan for consolidating Minnesota=s child care programs will require significant policy changes and financial commitments that can be agreed upon by both the executive and legislative branches of government.

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