

February 17, 2017

**To:** CMF Public Policy Committee  
**From:** Karista Gallick, Public Policy Fellow, Council of Michigan Foundations  
**RE:** Support for Increase in Child Care Subsidy and Additional Policy Recommendations

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### **Policy Recommendations**

**RESOLVED that the Public Policy Committee recommends the Board of Trustees ask the legislature to maintain the Governor's requested increase for the child care subsidy and increases the initial eligibility threshold to at least 150% FPL.**

**RESOLVED that the Public Policy Committee recommends the Board of Trustees ask the Michigan Department of Education to consider reimbursement to child care providers on a day, half-day, weekly, or monthly basis instead of hourly reimbursement to more adequately match the payment structure and practices of child care providers and cover providers' services.**

**RESOLVED that the Public Policy Committee recommends that the Board of Trustees support a shorter application process and other options that facilitate the processes for getting children into care.**

### **Background**

After the FY2017 budget went into effect on October 1<sup>st</sup>, the OFL and CMF received member inquiries on the legislature's failure to use \$20.5 million in federal funding for the Child Care and Development Fund, which pays child care subsidies for families who qualify. If the legislature spent \$7.5 million in a required state match, Michigan could've received this additional \$20.5 million. The Detroit Free Press, Michigan's Children, and the Michigan League for Public Policy all publicized this issue, the issue came up during a CMF InFocus Event in October, and the OFL hosted a briefing with Susan Broman (OGS) and Public Sector Consultants to present the *Building a Better Child Care System* report (funded by the Max M. and Marjorie S. Fisher Foundation). This report outlines the realities and challenges of the child care system, of which the failure to use federal funds is only part. This failure to use all funds to which Michigan is entitled, the declining amount of state investment in the subsidy, and other challenges outlined in the report are of great concern to CMF members, who invest in child and family wellbeing, and the P20 Education Affinity Group has asked the Public Policy Committee and OFL to advocate policy solutions to the problems highlighted in the *Building a Better Child Care System* report. **Policy recommendations must in a way that ensures access to high quality providers, with the idea that the subsidy is not just a work support to parents, but also an educational opportunity for young children and a tool for economic development.**

### **Report Findings and Recommendations**

Key findings from the report include:

- **Declining Investment in the Child Care Subsidy** – In 2007, the State spent \$416 million on the subsidy, but in 2015, this amount was \$156 million – Michigan dropped from the 11<sup>th</sup> highest state that invested in child care subsidies to 39<sup>th</sup>.
- **Low Reimbursement Rates to Providers** – Michigan's reimbursement rates to child care providers are among the lowest in the country with only three states having lower rates; reimbursements depend on age, setting, and quality, and range from \$1.35/hour (for a single caregiver in their home) to \$4.75/hour (for care for an infant in a 5 star-rated center). These rates are less than 75% of the market rate (which is the federal recommendation for provider reimbursement rates). Hourly reimbursements also don't match the structures of the child care market; most providers charge on half/full day or weekly/monthly basis and most states reimburse providers as such. These forms of reimbursement are more streamlined and more adequate in covering families' and providers' needs.

- **Stringent Eligibility Requirements** – Michigan has one of the most stringent initial eligibility requirements for families to receive the subsidy at 125% FPL; 33 states set initial eligibility at 150% FPL or higher, and half set eligibility at amounts that automatically adjust each year, but Michigan’s remains fixed, which makes eligibility even more difficult. Once a family in Michigan is receiving the subsidy they are eligible until their income reaches 250% FPL (provided they continue to meet the other criteria) however, accessing the subsidy initially is difficult (see below).
- **Difficult to Access Subsidy** – In FY15, 73% of families that applied for the subsidy were denied. While some of these families were over the eligibility threshold, many left applications incomplete or did not submit required documents, and people who sought help on the application (be it through caseworkers or online) received contradictory or unhelpful information and could not complete their applications. Additionally, after a family applies, MDHHS takes 45 days to determine eligibility, during which families do not have access to care. MDHHS, with the help of Civilla, is piloting a shorter benefits application which is slated for rollout in the fall of 2017.
- **Lack of Capacity** – changing reimbursement rates, eligibility, and subsidy funding cannot succeed at getting kids into care if there are not slots and quality centers available. Only one-third of providers participate in the quality ratings system; most providers meet minimum licensing requirements, and a quarter of Michigan children are cared for by family, friends, or neighbors who can only receive the subsidy if they complete 10 hours of training. Low wages and lack of benefits for care providers present disincentives for attracting talent to the field and make achieving quality care even more difficult. Parents report few options where they live, and center administrators admit shortages in slots, which cost about \$3,500 per child.

### **FY 2018 Budget**

The governor has requested a \$29.4 million increase to the Child Development and Care Program in the FY18 budget; this increase in the child care subsidy will allow Michigan to access its federal Child Care and Development Fund allocations, which the State failed to do last year. This investment will increase the reimbursement rate to providers, bringing it closer to the federally recommended 75% of the market rate for the costs of child care in states. This increase in funding will also provide monitoring and background checks to ensure that children are receiving care in safe, high-quality settings. However, the budget does not call for a change in the initial eligibility level for accessing the subsidy, which remains at 125% of FPL.