

Money Matters

A Publication of the House Fiscal Analysis Department

Minnesota Child Care Assistance Finance Primer

*This publication provides an overview of the policy parameters and finance structure of Minnesota's major child care assistance programs. This publication has four parts. **The first two parts** of the publication summarize the scope, financial structure and state general fund cost of Minnesota's major child care assistance programs from FY 1995 through FY 2000. **The third section** details other non-general fund sources for Minnesota's child care assistance programs and **the final section** compares the policy differences between the programs.*

Part One - Introduction

Child care assistance programs provide subsidies to assist low and moderate-income families with the cost of child care to enable them to participate in employment, training and educational programs. The major objectives of the programs include, but are not limited to, helping low-income families with child care costs so that:

- Parents may pursue employment or education leading to employment, and;
- Parents may access affordable quality child care.

Child care assistance in Minnesota is primarily delivered through two programs: Minnesota Family Investment Program (MFIP) Child Care and Basic Sliding Fee (BSF) Child Care. Both child care assistance programs are administered by Minnesota counties under the supervision of the Minnesota Department of Children, Families and Learning (DCFL). Both MFIP and BSF child care provide a similar type of assistance but the finance structure and total cost of each program differ. The differences in cost can be explained by differences in scope and structure of each program.

This primer will briefly review the funding history of Minnesota child care assistance programs as well as compare the basic policy parameters and finance structure of each. Understanding the funding and policy parameters of each program is important background for future discussions on the possible consolidation of Minnesota's two child care assistance programs.

Part Two - Minnesota's Major Child Care Assistance Programs

MFIP and Transition Year Child Care.

Minnesota Family Investment Program (MFIP) child care assistance is provided to families participating in the MFIP program. Twelve months of child care assistance, called Transition Year (TY), is also provided to families that received MFIP child care for three of the last six months before losing eligibility for MFIP (due to increased earnings), or families participating in the WorkFIRST program.

The state provides 100 percent reimbursement to counties for providing child care assistance to MFIP and TY participants. To this end, the projected cost of the MFIP child care and TY child care program each year is estimated by state agency administrators and reflected in the Minnesota Department of Finance's forecast of revenue and expenditures completed in February and November of each year. For the purposes of the forecast and for this publication, MFIP child care program and TY child care program are treated as one program because the MFIP child care forecast is linked to the MFIP caseload forecast and the TY forecast is linked to the MFIP child care forecast.¹

Even though MFIP and TY child care assistance is an uncapped, forecast appropriation from the state general fund, before the appropriation is disbursed to counties it must be approved and enacted into law by the legislature and the governor.

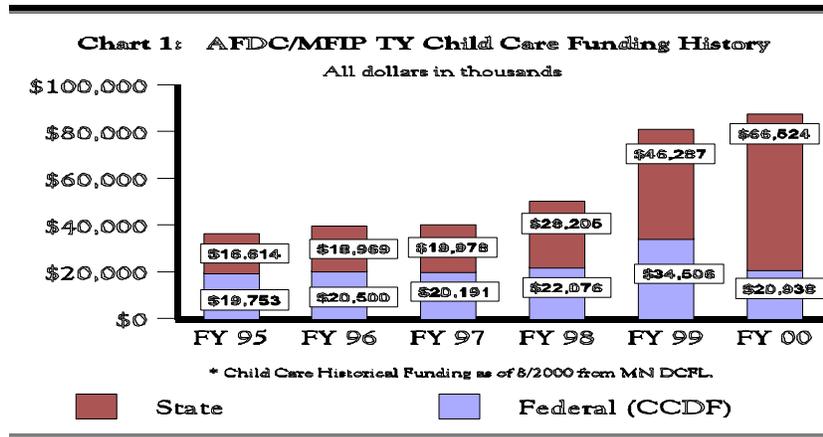
How much does the MFIP and TY child care programs cost taxpayers?

The total cost of the MFIP and TY child care program is financed with multiple funding sources including state, federal funds and parent contributions. The total forecast cost of the MFIP and TY child care program, from federal and state sources, is estimated to be \$112.2 million in FY 2001.

Apart from parent contributions, state and federal funds committed to MFIP and TY child care have increased 140 percent from \$36.4 million in state FY 1995 to \$87.4 million in state FY 2000. During this same time period, the level of state general fund monies allotted to these programs has increased 300 percent from \$16.6 million in state FY 1995 to \$66.5 million in FY 2000.² See Chart 1 for additional detail on the funding history of AFDC/MFIP & TY child care.

¹ MFIP child care and TY child care, however, are technically two different programs with different requirements for program eligibility.

² In contrast, state spending for MFIP cash assistance has decreased by 20 percent from \$108.6 million in FY 1995 to \$86.5 million in FY 2000. Total combined state and federal MFIP cash assistance spending has decreased by 32 percent from \$280.1 million in FY 1995 to \$192.6 million in FY 2000. These decreases in spending can be attributed to declines in the welfare caseload. Source: DHS, Report on Family Self-Sufficiency & Medical Programs, June 2000.



What is the methodology for estimating MFIP/ TY child care costs that are included in the forecast?

State administrators determine the methodology and select the variables for forecasting the state cost of the MFIP and TY child care assistance. The variables currently used to forecast the state cost of the MFIP and TY child care program include:

- MFIP participation (caseload) rates;
- Child care utilization rates;
- Cost of child care (based on actual cost of care from previous years and trend analysis); and
- Estimated amount of federal child care assistance dollars.

To the extent that variables in the forecast fluctuate or the total federal funds flowing to the program change, the cost of MFIP and TY child care and the total state obligation needed to support the program may increase or decrease each year.

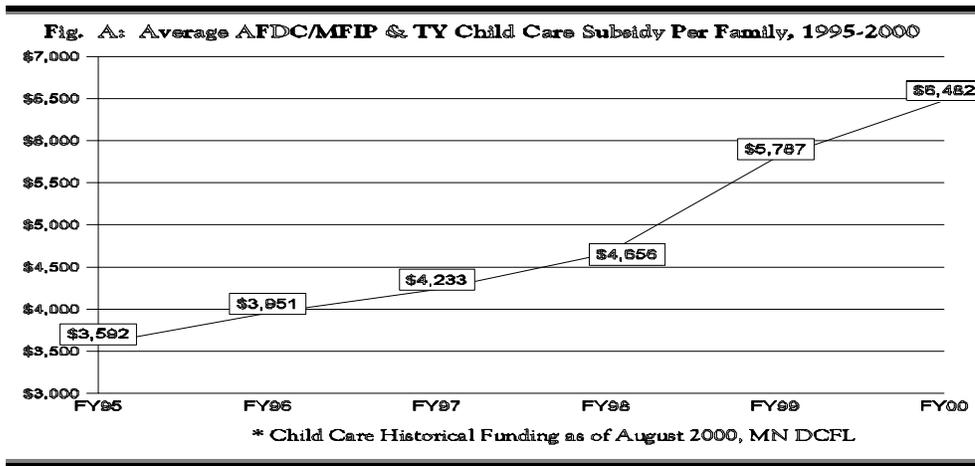
The forecasts published by the Minnesota Department of Finance in February and November make adjustments to the estimated cost of the MFIP and TY child care programs. If a forecast makes an adjustment for an overestimation of MFIP and TY child care program cost obligations, the surplus of state funds earmarked for the program in the forecast cancel back to the state's general fund balance. If a forecast makes an adjustment for an underestimation of MFIP and TY child care program cost obligations, the amount by which the program is deficient will be taken from the state's general fund balance (if available) to fully fund the cost of the program. Since this program is not an open and standing appropriation, a forecast change to spend an additional amount from the general fund balance would not become effective until it is enacted into law by the legislature and the governor.

Which MFIP and TY child care costs are not included in the forecast?

Within the MFIP and TY child care program, the only cost component that is not forecast is child care assistance for parents participating in social service activities such as mental health and chemical dependency treatment. These costs are financed with a separate, capped state appropriation and total participation is limited to the funds provided in the appropriation. All other MFIP and TY child care assistance costs are forecast annually by the state.

MFIP & TY Program Statistics.

In FY 1999, the average subsidy provided to a MFIP/TY child care assistance family was \$5,787 in FY 1999. See figure A for a history of the size of the subsidy for MFIP and TY child care assistance over six years.



In the first quarter of FY 2000, the MFIP child care program served 9,999 families or 18,823 children and the TY program served 2,951 families or 4,821 children. On average, there are 1.9 children per MFIP family and 1.6 children per TY family. For comparison purposes, the AFDC caseload in FY 1995 was 9,570 families. The estimated number of MFIP/ TY child care assistance families served in FY 2000 is 12,950 which is 34 percent higher than 1995 caseload estimates.

Basic Sliding Fee (BSF) Child Care.

BSF child care is the second major child care program provided to low income families that are working or going to school and not participating in the MFIP program. The state general fund appropriation for BSF child care is capped and total participation in BSF child care is limited to the funds available. Families receive subsidized BSF child care only if space is available. If there are insufficient funds in the county to fulfill demand, a family is put on a waiting list.³

Both the methodology for distributing available BSF funds to counties and the protocol defining how counties must spend BSF allocations are very prescriptive. Each county receives its guaranteed BSF funding floor, with any remaining funds allocated based on these factors: (1) county total expenditures for BSF child care from most recent fiscal year; (2) the number of families participating in MFIP and TY child care during the most recent year; and (3) each county's recent waiting list for priorities defined in statute and the total waiting list numbers. After program funds are distributed, counties must expend funds according to the following BSF child care priorities, in order:

- # Parents without a high school diploma or GED who need remedial or basic skills in order to pursue employment or education leading to employment;
- # Parents who have completed their MFIP or WorkFirst Transition Year; and
- # Families who are currently participating in the BSF program and move into a county with a waiting list.

All other families with incomes under 75 percent of the state median income may receive child care subsidies if the priorities listed above are fulfilled. Counties may also establish additional sub priorities with their BSF child care allocation.

Question Box: *What happens if a family leaving MFIP needs child care and there is a waiting list for BSF child care within their county of residence?*

A: *Basic Sliding Fee (BSF)/ Transition Year Uninterrupted Child Care Assistance*. A set-aside of funds has been earmarked to provide BSF child care slots in counties with a BSF waiting list for families leaving the MFIP program to ensure uninterrupted child care assistance. An appropriation must be enacted by the legislature and governor for this activity.

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>Legal Reference</u>
1999...	\$3,250,000/General Fund	98 MN Laws, SS1, Ch.1
2000...	\$2,500,000/TANF transfer to CCDF	99 MN Laws, Ch.205
2001...	\$1,080,000/TANF transfer to CCDF	00 MN Laws, Ch. 489
2002...	\$3,620,000/TANF transfer to CCDF	00 MN Laws, Ch. 489
2003...	\$4,040,000/ TANF transfer to CCDF	00 MN Laws, Ch. 489

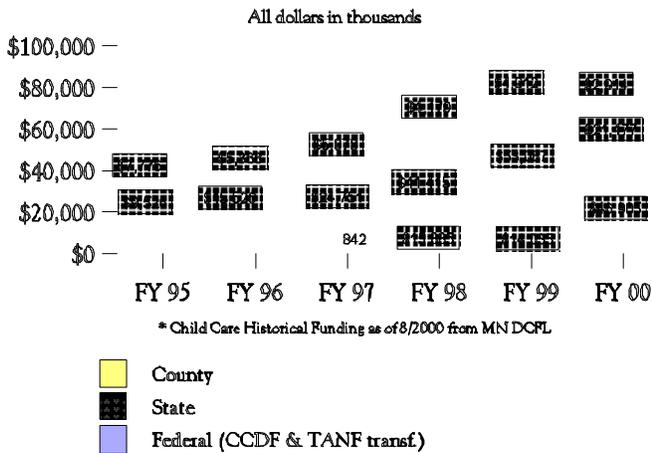
³ Before a county places a family on the waiting list, the county must make a preliminary determination of eligibility for child care assistance. This waiting list must be updated every six months. (M.S. 119B.03, subd. 2.) A county may also choose to use local funds to serve families who would otherwise be on the waiting list. Source: MN DCFL child care staff, July 2000.

What is the methodology for estimating BSF child care costs?

Unlike the MFIP child care program, the state cost of the BSF child care program is not forecast. Rather, the state cost of the BSF program is capped at a level determined by the legislature and governor. With each state budget cycle, the state appropriation for BSF child care requires both the governor and the legislature to enact a level of funding for the program that is constant, increased or reduced from the previous fiscal year or biennium.

The cost of BSF child care program is also financed with federal monies and county contributions as well as parent copayments. Excluding parent copayments, state and federal funding for the BSF program is capped at \$81.3 million in FY 2001.⁴ The level of state and federal resources used to finance the BSF child care program has increased 112 percent from \$33.6 million in state FY 1995 to \$71.3 million in state FY 2000. See Chart 2 for additional details on the funding history of the BSF child care program.

Chart 2: BSF Child Care Funding History

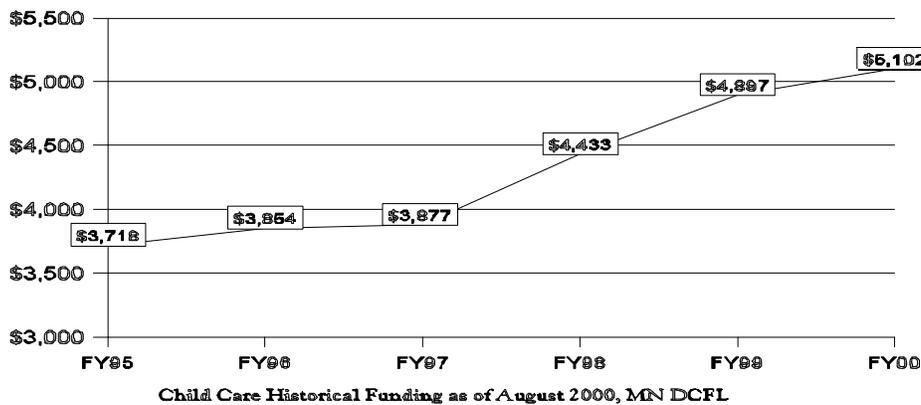


BSF Program Statistics.

During FY 1999, the average subsidy provided to a BSF family, with an average of 1.68 children per family, was \$4,897. See figure B for a six year history of the BSF subsidy.

For the first quarter of FY 2000, the BSF program served 13,244 families or 22,594 children. The BSF child care enrollment was 8,223 families in 1995. Since 1995, enrollment has increased by approximately 5,184 families or 63 percent.

Figure B: Ave. BSF Child Care Subsidy Per Family, 1995-2000



⁴ The FY 2001 BSF program capped appropriation is \$81.3 million. It includes \$22.3 million from the state general fund, \$16.7 million from federal CCDF block grant, \$40.5 from a TANF transfer to CCDF by the Legislature and \$1.6 million from special revenue fund.

Part Three - Non-General Fund Sources for Child Care Assistance

MFIP and TY child care and BSF child care depend on both state general fund and non general fund sources to finance total program costs. Non general fund sources for child care include federal monies, county contributions and state special revenues. These non general funds sources, in detail, are as follows:

Federal Sources. Recent welfare reform initiatives by Congress have affected the flow of federal funds to the state for both child care assistance programs. With the implementation of the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 at the federal level, the Aid to Families with Dependent Children (AFDC) program was repealed. The latter action by the federal government was the catalyst for the redesign of the welfare system. The guiding principles of welfare reform include providing more support to working families through a more simplified and flexible system developed by the states.

In Minnesota, there are federal two blocks grants that facilitate the development of a more flexible system to support families movement toward self-sufficiency. The first block grant is:

- ***Child Care Development Fund (CCDF) Block Grant***

CCDF is a capped federal five year block grant authorized through FY 2003 that provides states with funds to support child care services for low-income families with children under age 13. In addition to child care services, CCDF block grant funds must also be used for improving child care quality.

The CCDF block grant consists of three funding streams: discretionary, mandatory and matching funds. Approximately \$50 million from the federal CCDF block grant will be allocated to child care assistance in FY 2001. Within each year of the five year block grant, approximately \$21.7 million is needed for the state maintenance of effort (MOE) requirement to leverage the matching component of CCDF funds. State expenditures above the required MOE will be matched at the federal medical assistance participation rate up to the amount available in the matching allocation.

Federal CCDF funds are intermingled with state general funds dollars and flow to each Minnesota child care assistance program. In FY 2001, an estimated \$32 million (excluding TANF transfers) and \$16.7 million from the CCDF block grant will be used to finance MFIP and TY child care and BSF child care respectively.

- ***Temporary Assistance for Needy Families (TANF) block grant***

The TANF block grant is the second major federal block grant that provides funding for services to eligible low-income families. Like the CCDF block grant, TANF also has a state maintenance of effort requirement. The costs to administer the TANF program, therefore, are shared by

federal and state sources. Minnesota's TANF program is called the Minnesota Family Investment Program (MFIP). The federal allocation to Minnesota is authorized at a fixed amount of \$267 million annually through FY 2003. To draw down these federal funds, \$191 million of state resources (e.g. general fund) must be spent each year to meet the federally mandated maintenance of effort (MOE) requirement. Obligations in excess of \$458 million in any given year are the responsibility of the state's general fund.⁵

Child care is an allowable expenditure under TANF. In order to directly expend TANF on child care assistance, the services must be targeted to needy families as defined in the state TANF plan and any subsidies received will be considered "assistance" and counted toward a family's five year limit on benefits.

Another way to provide for child care assistance using TANF, without having it count as "assistance" and be applied toward a family's five year benefit limit, is to transfer TANF funds to CCDF. Approximately 30 percent of the annual federal TANF block grant of \$267 million each year may be transferred to CCDF and the social services block grant (SSBG). Beginning in October 2000, no more than 4.25 percent of the annual TANF block grant may be transferred to SSBG.

With respect to the process of transferring TANF funds to CCDF, as an example, Minnesota has transferred approximately \$40 million each year in the FY 2000-01 biennium to both increase the base and refinance the BSF child care program. See Table 3 for additional background about the total amount of general fund dollars refinanced with federal TANF dollars during the FY 2000-01 biennium.

Table 3: Refinancing the State General Fund base for BSF Child Care for the FY 00-01 Biennium

	FY 2000	FY 2001	FY 2000-01
General fund base	\$21,621,000	\$22,377,000	\$43,998,000
TANF transferred to CCDF to replace (or supplant) General Fund base	\$29,130,000	\$28,374,000	\$57,504,000
TANF transferred to CCDF to expand program over base	\$8,855,000	\$12,151,000	\$21,006,000
Grand Total	\$59,606,000	\$62,902,000	\$122,508,000

Note: This table does not include all BSF child care funding sources. For more information about other BSF child care funding sources, see Chart 2. House Fiscal Staff, September 2000

⁵ \$458 million includes \$267 million from the annual TANF allocation plus \$191 million of required state resources needed for the TANF MOE.

County Sources. The required contribution from counties has evolved with recent federal changes too. Contributions from counties are required for the administration of the child care assistance programs. Counties must also contribute to BSF direct services. Prior to the passage of welfare reform, counties had to contribute approximately 50 percent of the cost of administering the child care assistance program. Counties were also required to make contributions to the BSF child care program based on a percentage of total state and federal expenditures for BSF child care but were reimbursed for the cost of administering the child care assistance program at 10 percent of the state and federal allocations.

At the point that changes were made to support welfare reform, changes in the application of required county contributions across programs were also made to simplify administration and promote consistency across programs. The new contribution requirements for counties include:

- All counties receive an administrative allowance from the state of five percent of earnings but are expected to pay 50 percent of the cost of administering child care assistance programs.⁶
- Counties must also pay a fixed contribution to the BSF child care assistance program known as a direct services match. This match requirement has no relationship to county expenditure levels, thus holding counties harmless from any fluctuations in state or federal spending.

Statewide, the required contribution collected from counties for BSF child care equals \$2.9 million. Some counties have voluntarily contributed more than the minimum requirement and the total statewide contribution has increased beyond \$2.9 million in recent years.

Non- General Fund Sources. Another source of state funding dedicated to the BSF child care program is state special revenue. Approximately, \$1.6 million of state special revenue is expected to flow to the BSF program beginning in FY 2001. The special revenue funds come from the deposit of collections through the assignment of child support. Families participating in BSF must participate and be willing to turnover any child care support collections to help offset the public cost of the BSF program. It should be noted that the receipt of special revenue funds from the assignment of child support does not occur in the MFIP child care program.

⁶ The administrative allowance to counties for MFIP and BSF child care is capped at 1/21 of the allocation. M.S. 119B.15.

Part Three - Comparison of Child Care Assistance Policy Parameters

Sources of funding for MFIP, TY child care and BSF child care and the type of assistance provided by each program are similar. Still, there are certain policy parameters that set these two programs apart in terms of cost and structure. Major policy program parameters that define the scope of each program are as follows:

- Income eligibility criteria** - The income eligibility for MFIP child care program is limited to approximately 120 percent of federal poverty guidelines (FPG) and the focus of the program is on providing child care to the population receiving MFIP. The income eligibility limit for the BSF and TY child care programs, in comparison, is 75 percent of state median income (SMI) and is open to low-income families not participating in the MFIP cash assistance program. For comparison purpose, seventy-five percent of SMI is equivalent to 275 percent of FPG. See table 1 and table 2 more information about the difference between FPG and SMI.

Table 1. Basing eligibility on FPG vs. SMI : What's the difference?		
Major Differences	FPG	SMI
i. Rate of growth	<ul style="list-style-type: none"> Increases at the rate of inflation 	<ul style="list-style-type: none"> Increases at the rate of inflation plus growth in "real" income (above inflation)
ii. Variability/Comparability	<ul style="list-style-type: none"> Same for all 48 contiguous states and the District of Columbia 	<ul style="list-style-type: none"> Varies among states, counties and metro and non metro areas.
iii. Family Size to income	<ul style="list-style-type: none"> The ratio of additional income that may be earned before exiting the program to family size is small 	<ul style="list-style-type: none"> The ratio of additional income that may be earned before exiting the program to family size is greater than FPG.

Source: House Fiscal Staff, September 2000

- Authorized activities for parents** - The scope of authorized activities in MFIP is broader than the scope of activities authorized in BSF and TY child care. Authorized activities under MFIP child care assistance differ depending on whether the participating family has an employment plan. For TY child care, on the other hand, authorized activities are limited to employment and job search. Authorized activities for BSF child care are similar to TY child care but also include education.
- Parent copayment** - Families participating in the MFIP, TY and BSF child care programs must contribute a monthly copayment to help offset the public cost of providing child care assistance if their income is at or above 75 percent of the federal poverty guidelines. The copayment is based on a family's gross income and size, except families between 75 and 100 percent of federal poverty guidelines are limited to a \$5 monthly copayment contribution. For all eligible families,

copayments may not exceed 20 percent of a family's gross income per month. The sliding fee scale for parent contribution to child care assistance is structured so that families near the income eligibility exit point of BSF child care pay close to 100 percent of the cost of care.

- **Program finance** - For MFIP and TY child care programs, the appropriation is uncapped and the level of funding for this program is determined by the program's estimated cost liabilities that are forecast by state agency administrators. Forecast changes to an uncapped or forecast appropriation are accounted for in the Department of Finance's forecast of revenue and expenditures and still must be enacted into law by the legislature and the governor. The appropriation for the BSF child care program, in contrast, is capped and the level of state funds authorized for this program is determined by both the legislature and the governor. Any change to a capped appropriation must also be enacted into law by the legislature and the governor.
- **Child care provider rate reimbursement** - The amount that the state will reimburse child care providers each year is based on a market survey of county rates. Both MFIP/TY and BSF child care have identical reimbursement provisions. Each provider may be reimbursed up to the 75th percentile rate for like child care arrangements, not to exceed the provider's charge to private pay clients.
- **Time limits** - MFIP, TY and BSF child care program do not apply time limitations on participating families. However, if a family is receiving MFIP and reaches their sixty month limit on benefits, child care assistance will no longer be provided through the MFIP child care program.

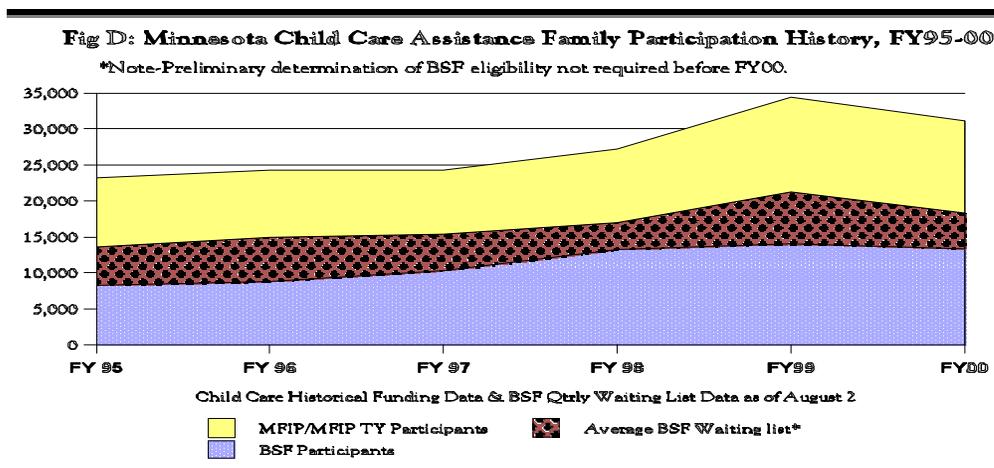
With the exception of income eligibility, program finance and authorized activities, these child care assistance programs share identical copayment, reimbursement rate and benefit limitation requirements. Table 2 compares the policy parameters for the two major child care assistance program in greater detail.

Table 2: Child Care Assistance Policy Parameters

Policy	MFIP and TY Child Care	BSF Child Care
Income Criteria -based on gross income and household size.	Income eligibility exit point is consistent with MFIP cash assistance program guidelines. In general, the exit point is at 120% of federal poverty guidelines (2000 Data: \$16,890 for a family of three) but the exact exit point varies based on household size. For a MFIP family that has been participating in the MFIP program for 3 of the last 6 months, it may be eligible for Transition Year (TY) Child Care and should receive child care assistance for 12 months. A family would not be eligible for MFIP TY child care if their income exceeded the eligibility exit point established for BSF child care (75% of SMI).	Income eligibility exit point is 75 percent of state median income (SMI) which is the equivalent of 275% of federal poverty guidelines. 2000 Data: \$38,170 for a family of three.
Authorized Activities -required activities to be eligible for child care assistance	For a MFIP family <u>without</u> an employment plan, they are eligible for child care assistance if they participate in the following: <ul style="list-style-type: none"> • Up to 240 hours in a calendar year for job search; • An average of at least 20 hours of work per week; or • At least 10 hours of work if a full time student and earning at least minimum wage. For a MFIP family <u>with</u> an employment plan, they are eligible for child care assistance if they participate in the following: <ul style="list-style-type: none"> • Job search (total hrs are defined in the employment plan); • Min. wage/hour requirement for work does not apply; • GED, Remedial, Post Secondary Education if included in employment plan; • Social services activities such as mental health or chemical dependency treatment. For a MFIP TY family, they are eligible for child care assistance if they participate in the following: <ul style="list-style-type: none"> • Up to 240 hours in a calendar year for job search; • An average of at least 20 hrs of work per week and earning at least minimum wage. 	Same activities as MFIP families without an employment plan and may also participate in educational activities with an approved education plan as established in law.
State Funding	Uncapped	Capped
Parent Copayment -based on gross income and household size	Both programs have identical copayment provisions. Copayments begin at 75% of FPG. Between 75% and 100% of FPG, the monthly copayment is \$5. At 100% of FPG and above, the copayment is based on gross income and family size. Copayments may not exceed up to 20% of gross income per month.	
Provider Rates - based on county market survey data	Both programs have identical reimbursement rate provisions. The reimbursement rate may not exceed the 75 th percentile rate for like child care arrangements in the county as surveyed by MN DCFL.	
Time Limits - maximum amount of time for assistance	Neither program has time limitations if child care assistance funding is administered through the federal CCDF block grant . Still, if a family loses MFIP eligibility due to the MFIP time limits, they will also lose their eligibility for MFIP child care assistance.	

Impact of policy parameter differences between child care assistance programs.

For state FY 2000, the estimated actual cost of the fully funded MFIP and TY child care program is approximately \$16 million more than the BSF child care program. Despite this cost difference, program participation in the MFIP and TY child care program is slightly less than the BSF child care program. In fact, the estimated average family participation rate for the MFIP and TY program is 12,950 or approximately 600 less than the average BSF child care participation estimates for FY 2000. See figure D for additional details on the total enrollment history for both MFIP/ TY and BSF child care as well as the average BSF waiting list history of families seeking enrollment onto BSF child care.



When

comparing the two programs, there are two policy parameters other than the funding structure driving the disparity in cost. The first key policy parameter is income eligibility. The MFIP child care (excluding TY participants) program serves families with income less than 120 percent of FPG. The BSF program, in contrast, serves families up to 75 of SMI which is the equivalent to up to 275 percent of FPG. The average size of the child care subsidy provided to a family is often greater in the MFIP child care program in comparison to BSF child care, because participating families have a lower gross income and pay a smaller copayment. As a result, the size of the subsidy increases and the total cost of the program increases to help offset the cost of child care assistance to the participating family.

Another key policy parameter is authorized activities. The scope of the authorized activities is much broader in the MFIP program than in the BSF program. The addition of authorized activities eligible for MFIP child care increases the cost of the program. During the 2000 Legislative session, for example, social service activities were added to the list of authorized activities eligible for MFIP child care. The total cost of this additional activity is \$9.4 million from FY 2001 through FY 2003. The inclusion of an additional authorized activity in MFIP child care was financed with a separate capped appropriation from TANF funds.

Future Considerations

The biennial cost for both child care assistance programs under current law policy parameters is estimated to be close to \$400 million for the FY 2000-01 biennium. State appropriations for both child care assistance programs have consistently increased since 1995. The data shows how there is not a direct proportionate relationship between state expenditures and program participation. The rate of child care assistance expenditures has grown at a faster rate than program participation because average cost of care per family has also consistently increased each year.

Consolidating the policy parameters of the two child care assistance programs into a single program would significantly change state expenditure forecasts, program participation and the estimated average child care assistance subsidy per family. These changes would have a significant short and long-term impact on the scope of child care assistance in Minnesota in terms program access, administration and cost to the state and counties. The executive branch has developed several consolidated child care assistance models for consideration. Of all the models that have been developed, one of them will be forwarded during the 2001 session for legislative approval.

This publication was prepared and edited by the Minnesota House of Representatives Fiscal Analysis Department. Questions about this publication may be addressed to Cynthia Coronado Templin at 651/296-5384 or cynthia.templin@house.leg.state.mn.us

The Child Care Assistance Program staff at the Minnesota Department of Children, Families and Learning provided the data incorporated into most of the tables and graphs within this document.