

MEMORANDUM



DATE: February 21, 2012
TO: House Appropriations Subcommittee on the Department of Education
FROM: Mark Wolf, Senior Fiscal Analyst
RE: Child Development and Care (CDC) Program

This memorandum provides an overview of the Child Development and Care (CDC) program, which is now administered by the Department of Education (MDE) following the establishment of the Office of Great Start by Executive Order 2011-8.

The state's Child Development and Care (CDC) program provides state support for low-income and other qualifying families in need of child day care for children in order to work or participate in education or training activities. The program is jointly administered by the MDE Office of Great Start and the Department of Human Services. The Department of Education is the designated Lead Agency for the program and is responsible for financial management, policy development, and quality assurance. Child care subsidy payments are also appropriated in the MDE budget. The Department of Human Services is responsible for program eligibility, the conduct of administrative hearings, and child care licensing, and receives administrative funding support through an interdepartmental grant within the MDE budget.

Fund Sources

There are essentially two main statutory bases for state CDC programs. Section 418 of the federal Social Security Act (SSA) provides "mandatory" funding to state for child care subsidies, based on the amount the state received under child care programs under the federal welfare program Aid to Families with Dependent Children (AFDC) prior to the 1996 reforms. Michigan's mandatory funding level is \$32.1 million. This mandatory funding does not require a state-match.

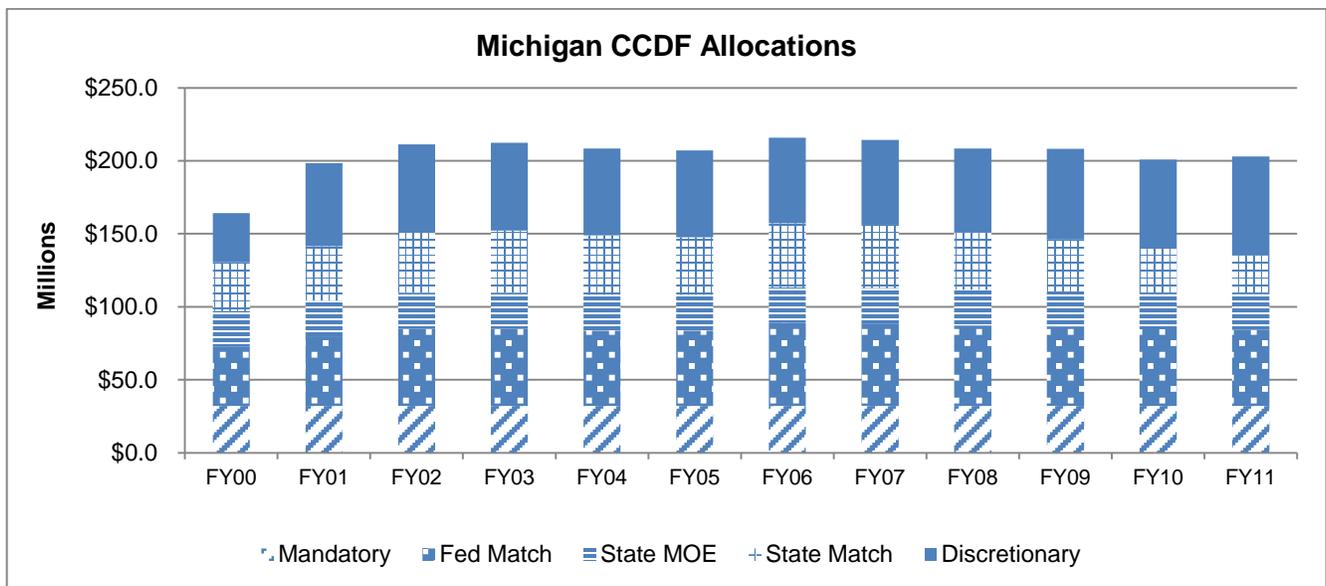
Funding above the mandatory level is available as matching funds, in which the state must meet a maintenance-of-effort (MOE) requirement, which totals \$24.4 million for Michigan. Once a state meets its MOE requirement, state spending above the MOE requirement is matched at its current federal Medicaid (FMAP) rate (66.39% in FY 2013). The state's match and MOE consist primarily of GF/GP appropriated for child care subsidies, GF/GP appropriated for a provider billing reconciliation unit, and funding within the School Aid budget for the Great Start Readiness Program, which provides approximately 29,000 pre-school slots to at-risk children.

Additionally, the federal Child Care Development Block Grant Act (CCDBG) provides states "discretionary" funds that do not have a MOE or match requirement, based on funds appropriated for the federal Department of Health and Human Services (HHS). Funding through the SSA and the CCDBG are collectively referred to as the Child Care and Development Fund (CCDF).

States are required to expend at least 4% of the CCDF funds on activities that provide consumer education, increase parental choice, and improve the quality and availability of child care. In addition to this 4% set aside requirement, the HHS appropriations act for the past several years has included specific earmarks for child care resource and referral activities, school-age child care activities, activities to improve the quality of infant and toddler care, and additional quality activities. These funds are referred to as "targeted" funds. Generally speaking, CCDF quality funds allocated to the state are administered by the Early Childhood Investment Corporation (ECIC) and support the nine

Great Start Regional Child Care Resource Centers, support the Great Start Connect website, provide child care workers with scholarship assistance to continue their education and professional development, and support the development of the Tiered Quality Rating Improvement System (TQRIS), which aims to improve the quality of programming and staffing of child care providers.

In addition to the direct appropriation of CCDF funds to states, federal law also permits states, at their discretion, to transfer up to 30% of their Temporary Assistance for Needy Families (TANF) block grant funds to the CCDF. In Michigan, TANF funds transferred to the CCDF, which are subject to CCDF requirements, averaged around \$116.7 million during FY 2005 to FY 2009, with no transfer made in the last three years. In addition to the TANF transfer, federal law also permits states to directly spend TANF block grant funds on child care services for needy families. These direct funds are subject to applicable TANF requirements, and may also be subject to CCDF requirements. States may also expend a portion of their Title XX Social Services Block Grant funds as well as Title IV-E foster care funds on child care services, with each fund source totaling less than \$10.0 million annually.



Source: U.S. Department of Health and Human Services

CCDF State Plan

CCDF funds are allocated to one lead agency within each state. The state's lead agency, following the creation of the Office of Great Start, is the Department of Education. Each lead agency is charged with developing a biennial state plan detailing various aspects of their program administration, including program eligibility criteria, priorities in children served, fee schedules, provider payment rates, quality improvement initiatives, and program integrity measures. Additionally, state plans must also ensure that their programs include elements related to parental choice, parental access, parental complaints, consumer education, licensing and regulation, and health and safety requirements.¹

CDC Program Eligibility

States have a significant amount of flexibility in implementing the CDC programs, including determining client eligibility, provider eligibility and requirements, provider payment rates, and client cost-sharing requirements. Federal law provides that children eligible for assistance must be less than 13 years of age (or, at the state's discretion, up to age 18 if they require care due to a physical or mental condition), have a family income that does not exceed 85% of the state median income, and

¹ See Michigan's 2012-2013 biennial CCDF State Plan, http://www.michigan.gov/documents/dhs/2012-2013_State_Plan-_Final_365274_7.pdf

reside with a parent who is working or attending a job training or educational program or who is receiving child protective services. Most children receiving CCDF-funded care are 4 years old or younger, given that the need for care decreases for school-age children.

State CCDF policy requires a child's parents to have a valid **need reason** as to why they are unable to care for the child. The state provides for four general need reasons:

- Family preservation, such as a medical condition which renders the parent unable to care for the child;
- High school completion;
- An approved activity, such as job training approved by Michigan Works! or the Michigan Rehabilitation Services; or
- Employment

In addition to the family need reason, eligibility is also based on each family's **eligibility group**. Three eligibility groups are categorically eligible for assistance:

- Have an open children's protective services (CPS) case;
- Have an active DHS-paid foster care case;
- Receive Family Independence Program (FIP) assistance, extended FIP assistance, or SSI benefits.

Families not meeting the requirements of the three categorically eligible groups (and having a valid need reason), may receive CDC assistance if they meet certain income eligibility requirements, based on the program group size. The chart below shows the number of children served by the CDC program in FY 2011 according to family need reason and eligibility group.

FY 2011 – Children in CDC Program by Eligibility Reason

	Family Preservation	High School Completion	Approved Activity	Employment	Total Eligibility
Protective Services	185	0	0	0	185
Foster Care	107	7	177	2,749	3,040
FIP Related	1,012	611	21,804	18,158	41,585
Income Eligible	494	456	6,076	49,094	56,120
Total Need	1,798	1,074	28,057	70,001	100,930

Source: Department of Education, Office of Great Start

Child Care Providers

The underlying principle of the CDC program is that parents must be given the maximum choice and flexibility in selecting a quality child care provider. At the time of enrollment, parents are given the option of choosing the type of child care provider, including licensed child care centers, licensed group homes, registered family homes, and unlicensed providers (relative providers or day-care aides). Unlicensed providers must either (1) provide care in the child's home or (2) provide care in the provider's home and be related to the child by blood, marriage, or adoption as a grandparent, aunt/uncle, or sibling. The chart below shows the number of providers receiving payment from FY 2009 to FY 2011. During these years there was a significant decline in the number of providers due, in part, to a decrease in the number of CDC cases, implementation of a training requirement for unlicensed providers, and the impact of the economic downturn on licensed and registered child care facilities.

Child Care Providers

	FY 2008-09		FY 2009-10		FY 2010-11		FY09-FY11 Change	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Licensed Centers	2,276	4.6%	2,117	6.0%	3,352	17.0%	1,076	47.3%
Licensed Group Homes	2,199	4.5%	1,969	5.6%	2,625	13.3%	426	19.4%
Registered Family Homes	2,697	5.5%	2,346	6.6%	2,751	13.9%	54	2.0%
Unlicensed Providers	42,152	85.4%	28,981	81.8%	10,910	55.2%	(31,242)	(74.1)%
License-Exempt Providers	13	0.0%	13	0.0%	135	0.7%	122	938.5%
Total	49,337	100.0%	35,426	100.0%	19,773	100.0%	(29,564)	(59.9)%

Source: Department of Education, Office of Great Start

The chart below shows the number, and percentage, of children served by the type of child care setting for the last three fiscal years.

Children by Provider Type

	FY 2008-09		FY 2009-10		FY 2010-11		FY09-FY11 Change	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Licensed Centers	32,857	19.3%	34,839	25.6%	32,388	39.7%	(469)	-1.4%
Licensed Group Homes	18,604	10.9%	16,566	12.2%	14,563	17.8%	(4,041)	-21.7%
Registered Family Homes	12,041	7.1%	10,726	7.9%	9,407	11.5%	(2,634)	-21.9%
Unlicensed Providers	106,758	62.6%	73,667	54.1%	24,648	30.2%	(82,110)	-76.9%
License-Exempt Providers	208	0.1%	293	0.2%	650	0.8%	442	212.5%
Total	170,468	100.0%	136,091	100.0%	81,656	100.0%	(88,812)	-52.1%

Source: Department of Education, Office of Great Start

Provider Payment Rates

In ensuring that parents have flexibility in selecting the child care provider of their choice, federal law (42 USC 9858c) provides that provider payment rates must be "sufficient to ensure equal access for eligible children to comparable child care services in the State or substate area that are provided to children whose parents are not eligible to receive assistance." In assessing their provider rate schedule, states are to utilize a Market Rate Survey (MRS) to determine the current child care costs, although states are not required to set rates at the MRS rates. HHS suggests that provider payment rates be at least equal to the 75th percentile of the market rate to ensure equal access. The CDC rate ranges from 50% to 100% of the MRS 75th percentile rate, depending on the type of provider and the age of the child in care. The chart below shows the current CDC hourly rates, effective October 9, 2011 and the MRS 75th percentile rate by the age of the child in care and the type of child care setting.

Provider Payment Rates v. Market Rates

Licensed Child Care Centers	CDC Rate	MRS Rate	Ratio
- Birth to 2.5 years	\$3.75	\$5.13	73.1%
- 2.5 years to 5 years (Pre-K)	\$2.50	\$5.00	50.0%
- 5 years (K) to 12 years	\$2.50	\$4.50	55.6%
Family Child Care Homes			
- Birth to 2.5 years	\$2.90	\$4.00	72.5%
- 2.5 years to 5 years (Pre-K)	\$2.40	\$3.71	64.7%
- 5 years (K) to 12 years	\$2.40	\$3.50	68.6%
Group child Care Homes			
- Birth to 2.5 years	\$2.90	\$3.75	77.3%
- 2.5 years to 5 years (Pre-K)	\$2.40	\$3.50	68.6%
- 5 years (K) to 12 years	\$2.40	\$3.50	68.6%
Unlicensed Providers (Tier 1)			
- Birth to 2.5 years	\$1.35	\$2.20	61.4%
- 2.5 years to 5 years (Pre-K)	\$1.35	\$2.00	67.5%
- 5 years (K) to 12 years	\$1.35	\$2.00	67.5%
Unlicensed Providers (Tier 2)			
- Birth to 2.5 years	\$2.20	\$2.20	100.0%
- 2.5 years to 5 years (Pre-K)	\$1.85	\$1.85	100.0%
- 5 years (K) to 12 years	\$1.85	\$2.00	92.5%

Source: Michigan FYs 2012-2013 CCDF State Plan, DHS Bridges Eligibility Manual.

Before unlicensed providers are eligible to receive payment, they must participate in a six-hour basic training course covering first aid and CPR, nutrition, health and safety, shaken baby syndrome, and safe sleep practices. Providers completing just this level of training are referred to as Tier 1 providers. Unlicensed providers can receive a higher hourly rate by completing an additional 10 hours of training per year through the Great Start Regional Child Care Resource Centers. According to the Office of Great Start, only 8% of the active unlicensed providers are Tier 2 providers. The office notes, however, that under current policy the higher hourly rate is awarded for the full calendar year following completion of the tier 2 training.² The policy is being revised by the Office of Great Start so that the higher hourly rate will be provided, for one year, upon completion of the additional training. Tier 2 providers will need to complete 10 hours of training annually to continue to receive the higher payment rate.³ The new policy is should go into effect on March 19th.

² For example, if a provider completed the 10 hours of training in March 2011, the higher payment rate would be payable for the 2013 calendar year.

³ For example, if a provider completed the 10 hours of training required in July 2012, the provider would receive the higher payment rate starting in July 2012, and would need to complete an additional 10 hours of training by July 2013 to continue receiving the higher rate.

Actual provider rates are generally driven by the legislative appropriations, with rates typically determined by the department, based on available appropriations and projected caseloads.⁴ In FY 2009-10 (2009 PA 248) and FY 2010-11 (2010 PA 190), provider payment rates were specifically established in boilerplate. That language was dropped in FY 2011-12 in favor of DHS developing the rate schedule. In other years, the Legislature has specifically earmarked funds to increase provider payment rates for caring for infants and toddlers.

The state does not strictly pay the maximum hour rate, as specified in the rate schedule noted above. Rather, the hourly pay rate is multiplied by a **department pay percentage** (DP%). The DP% is 100% for categorically-eligible clients (FIP-related, protective services, and foster care), and ranges from 70% to 95% according to program group size and income for income-eligible clients.⁵ Federal law limits eligibility to families with an income of 85% of the state median income. For a family of four in Michigan, the monthly income limit (\$2,367) is 37% of the state monthly median income (\$6,365).

PROGRAM	Gross Monthly Income (GMI)				No CDC Assistance
Group Size	(Effective February 1, 2003)				if GMI is Over
1-2	\$0 - \$1496	\$1497 - \$1533	\$1534 - \$1570	\$1571 - \$1607	\$1,607
3	\$0 - \$1847	\$1848 - \$1895	\$1896 - \$1943	\$1944 - \$1990	\$1,990
4	\$0 - \$2198	\$2199 - \$2255	\$2256 - \$2311	\$2312 - \$2367	\$2,367
5	\$0 - \$2551	\$2552 - \$2616	\$2617 - \$2681	\$2682 - \$2746	\$2,746
6	\$0 - \$2902	\$2903 - \$2976	\$2977 - \$3050	\$3051 - \$3123	\$3,123
7	\$0 - \$3253	\$3254 - \$3336	\$3337 - \$3418	\$3419 - \$3500	\$3,500
8	\$0 - \$3604	\$3605 - \$3695	\$3696 - \$3786	\$3787 - \$3877	\$3,877
9	\$0 - \$3955	\$3956 - \$4055	\$4056 - \$4155	\$4156 - \$4254	\$4,254
10+	\$0 - \$4309	\$4310 - \$4417	\$4418 - \$4525	\$4526 - \$4634	\$4,634
DP %	95%	90%	80%	70%	

Source: DHS Bridges Eligibility Manual

The product of the CDC hourly rate and the DP% is multiplied by the total number of hours provided in the two-week billing period to determining the provider's bi-weekly payment. The maximum number of hours of care paid through the CDC for a recipient (child) is 80 hours per two-week period.⁶ The total number of hours a provider may be paid in a two-week period is limited to:

- Licensed Child Care Centers: No limit.
- Licensed Group Homes: 1,440 hours
- Registered Family Homes: 720 hours
- Unlicensed Providers: 560 hours

⁴ Rule 9 (R 400.5009) of the Department of Education's CDC program rules states, "provider reimbursement rates shall be established by the department or legislature based on available actual appropriations and the number of eligible recipients."

⁵ Rule 2 (R 400.5002) of the MDE's CDC program rules states, "the upper income limit for families that receive child development and care payments and are not exempt from an income test shall be based on available actual appropriations and the number of eligible recipients."

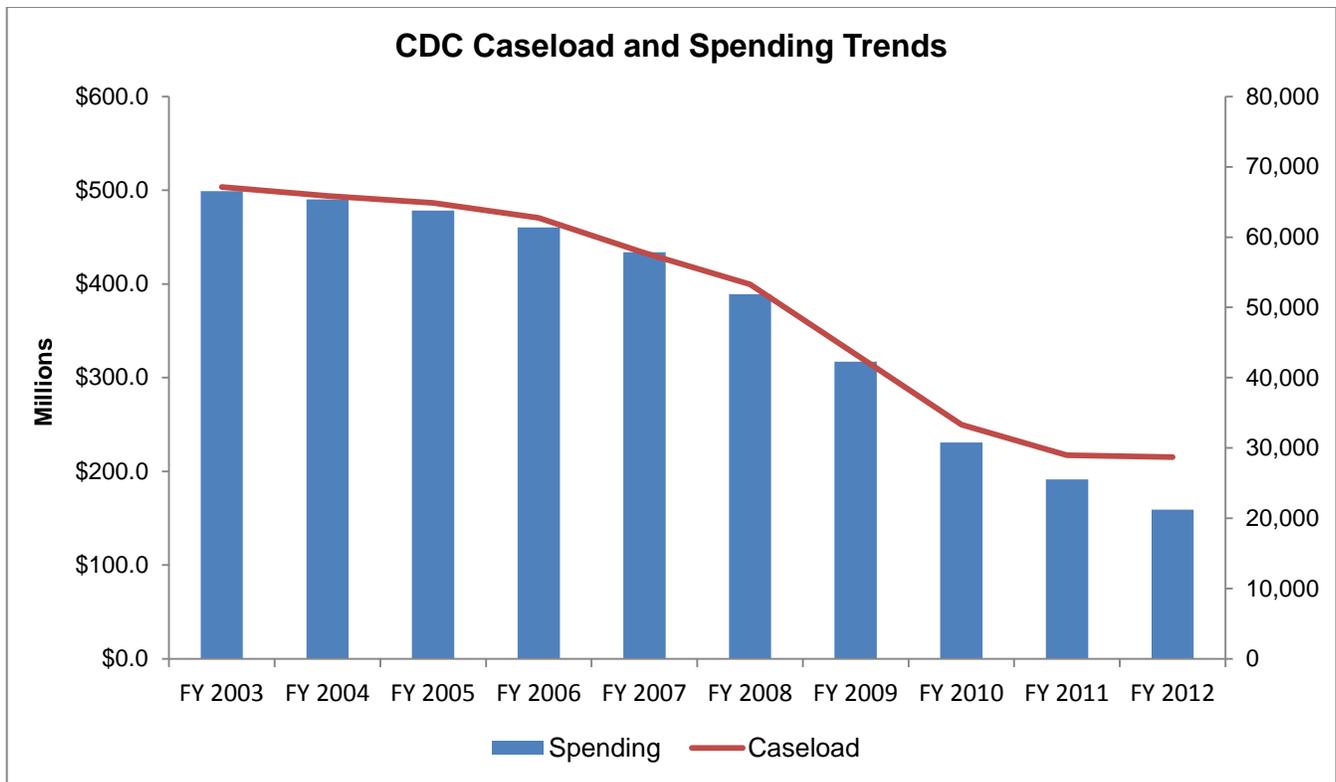
⁶ Rule 13 (R 400.5013) of the MDE's CDC program rules notes, "The department may limit the maximum amount of child care that can be authorized by day or by pay period, or both, based on available actual appropriations and the number of eligible recipients."

FY 2011 – Average Monthly Hours in Care for a Child by Provider Type

	Licensed Centers	Licensed Group Homes	Registered Family Homes	Unlicensed Providers	License-Exempt Providers
Infants (0 to <1 yr)	118	124	124	136	66
Toddlers (1 yr to <3 yrs)	120	127	122	139	81
Preschool (3 yrs to <6 yrs)	109	119	116	137	97
School Age (6 yrs to <13 yrs)	74	101	98	135	110
13 years+ (with disability or court ordered supervision)	81	105	131	140	180
All Ages	103	115	112	136	90

Source: Department of Education, Office of Great Start

Caseload Statistics



Source: Department of Human Services. Note: Caseload data shows the monthly average number of cases.

The chart above shows expenditure and average monthly caseload data for the last decade. The drop in caseloads is partly attributable to the employment status of parents. The predominant family need reason is the need for child care due to the employment of the child's parents. However, during the economic downturn the number of unemployed workers increased and, as a result, there was a lesser demand for child care services. Additionally, the income limits for income-eligible families were last changed in 2003. As incomes rise, more families become ineligible for CDC assistance. Policy changes, such as limiting billable hours, have also contributed to the decline in caseloads and spending.

Conclusion

The state's CDC program provides needed child day care subsidies to thousands of families in the state, enabling families to remain employed or to pursue other activities in pursuit of an educational or employment outcome. Operating within a broad federal framework, the state has a great deal of flexibility in designing the CDC program requirements and policies concerning families and child care providers, which drive program caseloads and the state and federal financial resources that go therewith. In the past the Legislature has taken a direct role in shaping CDC program policy, such as establishing provider payment rates. The Legislature has also taken an indirect role with available appropriations determining CDC policy on such matters as income eligibility requirements and the maximum amount of billable hours of child care.

Should you have any questions feel free to contact me at 373-8080.