How Michigan's Child Care Assistance Program Compares

Structural Differences by State

The Child Development and Care (CDC) program provides eligible families with child care assistance. This program is administered in Michigan through the Michigan Department of Education/Office of Great Start (MDE/OGS), with assistance from the Michigan Department of Health and Human Services (MDHHS), which determines eligibility. Public Policy Associates, Inc. (PPA) was awarded a grant from the U.S. Department of Health and Human Services/Administration for Children and Families in fall 2019 to conduct research into the effects of CDC program policy changes in Michigan. The degree of variety among states in their structural approaches to the CDC can affect the access to quality child care for families. This issue brief benchmarks Michigan against other states on four structural program aspects: (1) income eligibility, (2) renewal, (3) funding model, and (4) how provider payment rates are defined.

Michigan's Approach

In 2019, the state average annual cost of child care for an infant and four-year-old at a center was $18,602.[i] The U.S. Department of Health and Human Services (HHS) recommends that no more than 7 percent of a family's income is spent on child care.[ii] For many low-income Michigan families, the cost of child care exceeds that HHS recommendation. With 43% of the state's population (1.6 million households in 2017) classified as being in the Asset-Limited, Income-Constrained, Employed (ALICE) population,[iii] the child care subsidy is an important resource for families.

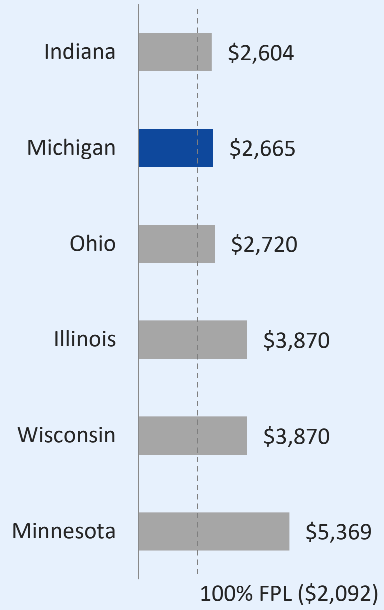
Eligibility Threshold

Federal regulations set a maximum eligibility limit of 85% of state median income, but most states fall well below that threshold. Michigan has one of the strictest family income limits in the country, ahead of only Indiana. Michigan's $2,665 per month limit (for a family of four) is also well below the national average (approximately $3,924 in 2018), and far less than the most generous state, Vermont, which in 2018 set its maximum monthly income at $6,275.[iv] In Michigan, a family of four can earn no more than $31,980 annually to qualify for a child care subsidy, barring certain exceptions (e.g., the child is a Flint resident or is in the child welfare system).

Like most states, Michigan sets a single income eligibility limit for the entire state. A few states, such as Texas, Colorado, and Virginia, vary their limits by counties or regions of the state.

Michigan is one of 39 states that set eligibility limits for the child care subsidy as a fixed percentage of either state median income or federal poverty guidelines ($24,600 a year for a family of four). Michigan sets the income limit at 130% of the federal poverty guideline by legislation. Because of changes in the cost of living, federal poverty guidelines are

Maximum Monthly Earnings for a Family of Four to Qualify for Child Care Subsidy in the Great Lakes States in 2018



Data from the CCDF policies database.

updated annually, which requires state agencies to regularly revise their income eligibility tables. If these are not updated each year, the income limits in use can fall below the 130% level.[v]

Michigan has a single eligibility limit, regardless of family situation. Several states have multiple programs used to serve different populations (e.g., TANF and non-TANF[vi]), or set more generous eligibility criteria for families with different needs (e.g., special education).[vii]

Subsidy Renewal

Michigan is similar to other states in having higher income limits for remaining in the subsidy program than for initial eligibility. Participants may continue to participate in the program even if their income grows; Michigan's income limit for remaining in the program is graduated and close to the national average for a family of four (270% of the federal poverty threshold).[viii] Michigan caps the exit limit at 85% of state median income by family size.[ix]

Defining Payment Rates

There is a great diversity among states on policies regarding providers and provider payments, but there are a number of common features that Michigan shares with other states. As do nearly all other states, Michigan pays licensed providers directly rather than paying parents (it issues the subsidy to parents when using license-exempt providers). As with other states, Michigan differentiates payments based on the child's age and the type of provider (center, family, group home, license exempt). Along with 32 other states (in 2018), Michigan uses a tiered reimbursement system that gives higher rates to child care providers with higher QRIS (quality star) ratings. Other state systems include higher payment rates for providers with national or state-level accreditation. More states are moving in the direction of tiered payments: a review of the 2019-2021 state plans indicates that 39 states already have or are phasing in some type of tiered payment structure.[x] In addition, Michigan resembles other states in its requirements for license-exempt-providers, who must undergo a background check; receive CPR, first aid, health, and safety training; and undergo inspections.[xi]

Michigan's provider policies stand out from other states in two areas, however. First, Michigan has lower base payment rates to providers than other states. For example, base payment rates for children attending child care centers are well below the national average in every age group. According to 2018 data, Michigan's base payment rate for a month of care was $693 for infants (state median $764), $477 for both toddlers ($638 state median) and preschoolers ($586 state median), and $238 for older children ($342 state median).[xii] These figures are somewhat better when tiered payments are considered, but nevertheless Michigan's lower provider payments mirror its lower eligibility limits.

In addition, Michigan is one of 16 states that do not differentiate rates by region of the state. As with eligibility, Michigan uses a single, uniform payment rate for every region of the state. Most other state systems set different rates by county or groups of counties based on market rate surveys. Most of the states that use a single state standard are small, rural states; Louisiana, New Jersey, and Oklahoma are the only other medium-to-large states that use a uniform payment standard.[xiii]

Program Funding

Child care subsidies are funded through a combination of state and federal sources. States are required to spend "maintenance of effort" funds, and are also eligible for federal matching funds. Michigan returned more in unspent federal Child Care and Development Fund (CCDF) matching funds than any other state between 2015 and 2017, to the tune of $35 million.[xiv] Only three other states returned matching funding during that period.

Federal regulations also allow states to transfer up to 30% of TANF funds to the CCDF program. Michigan spends a very small percentage of its federal TANF funds (1%) on the CCDF program, and none of it on subsidy payments. Michigan last used TANF to directly fund child care subsidies in 2013.[xv] Although on average 9% of TANF funds are transferred to child care subsidies nationally, 26 states do not transfer any TANF funds to child care subsidies. Michigan had $56 million in unobligated TANF funds in 2018.[xvi]

Implications

Given the costs for child care, there is no doubt that Michigan families—particularly those families who are paying much more than 7 percent of their income toward care—could benefit from greater child care resources. While Michigan is ahead of other states in some aspects of its program (e.g., graduated exit income level), it is behind in others (e.g., eligibility income level). As research has shown, investment in quality early childhood is one well worth making.

Key Questions to Consider

- How can Michigan maximize federal funds to support expanded access to assistance and provider rate increases?
- What are the consequences for families and providers for a payment rate structure that does not acknowledge cost differences by geography or care need?
- What are the barriers and solution options for maintaining an eligibility income limit that does not lose dollar value annually?
- What other aspects of Michigan's CDC program policies and practices could be improved to facilitate access to quality child care for families in need?

Suggested Practices and Policies

Ensure that income eligibility tables align annually with the federal poverty guidelines. Michigan's income limits (in dollars) have sometimes not kept pace with increases to the federal poverty guidelines. When that happens, the CDC income limit actually falls below 130% of the federal poverty threshold. In 2019, this meant that the eligibility limit was the equivalent of 124% of the poverty level (when the income limits were based on 2017 guidelines). Updates must be made annually to the state's Bridges benefits system and to policy guidance.

Consider increasing the income eligibility level. The Michigan Association of United Ways estimates that a Michigan family of two adults, an infant, and a preschooler would need to earn over $61,000 (2017 dollars) to meet a Household Survival Budget, which includes child care costs of over $1,000 per month.[xvii] This far exceeds the federal poverty guideline for a family that size. Michigan could close that gap to buoy family economic stability.

Set a regionally based tiered payment rate structure. The existing Michigan tiered payment rate structure by type of provider and age of child makes sense. It costs more to care for an infant than an older child in most cases. A center with a high Great Start to Quality rating also has greater operating costs than a lower-rated home provider. However, Michigan's current structure ignores regional variations in the cost of care, as shown in the most recent Michigan Child Care Market Rate Study conducted by PPA.[xviii]

Appropriate state matching funds so Michigan can fully utilize the available federal resources. Michigan has left money on the table. To access more of the available federal resources, the Michigan Legislature needs to devote more state resources to supporting access to quality child care. In addition to the CCDF, TANF funds can also be used to expand access to child care.

Involve families and child care providers in policy and practice discussions. As the end users of the CDC program, it is important to keep the voices of Michigan's diverse parents and providers part of monitoring the program's effectiveness and considering potential changes. The MDE/OGS has taken steps to collect and follow recommendations from these critical stakeholders.[xix] PPA's Child Care Policy Research Partnership with MDE and MDHHS also engages parents and providers, but additional opportunities could be leveraged to support ongoing program improvements.

References

[i] Child Care Aware of Michigan, "Price of Child Care in Michigan," 2019. https://info.childcareaware.org/hubfs/2019%20Price%20of%20Care%20State%20Sheets/Michigan.pdf?utm_campaign=2019%20Cost%20of%20Care&utm_source=2019%20COC%20-%20MI

[ii] U.S. Department of Health and Human Services, Administration for Children and Families, Federal Register, Vol. 81, No. 190, September 30, 2016, 67467.

[iii] Michigan Association of United Ways, *ALICE in Michigan: A Financial Hardship Study*, 2019, 1, https://www.uwmich.org/alice. ALICE stands for "asset-limited, income-constrained, employed."

[iv] Calculations by the authors based on data in the CCDF policies database, https://ccdf.urban.org/.

[v] Ibid.

[vi] Temporary Assistance for Needy Families, the successor to the Aid to Families with Dependent Children (AFDC) program.

[vii] Michigan sets different copayment rates based on family circumstances. Copayments may be necessary when the subsidy does not cover the full cost of care charged by a provider and the family must make up the difference. Copayments are waived for eligible Michigan families with incomes under 100% of the federal poverty threshold.

[viii] Copayments by the families also rise as their incomes increase.

[ix] *Child Development and Care Fund Plan for Michigan*, FFY 2019-2021, 77, https://www.michigan.gov/documents/mde/FY19-21_Submitted_State_Plan_Draft_ADA_631732_7.pdf.

[x] The authors collected data from Section 4.4.1 of state CCDF plans, https://www.acf.hhs.gov/occ/resource/state-plans.

[xi] "Key Cross-State Variations in CCDF Policies as of October 1, 2018: The CCDF Policies Database Book of Tables," U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research, and Evaluation, January 28, 2020, https://www.acf.hhs.gov/opre/resource/key-cross-state-variations-in-ccdf-policies-as-of-october-1-2018-the-ccdf-policies-database-book-of-tables.

[xii] Ibid.

[xiii] Calculations by the authors based on data in the CCDF policies database.

[xiv] U.S. Department of Health and Human Services, Office of Child Care, "Child Care and Development Fund Expenditure Data" (2015, 2016, 2017), https://www.acf.hhs.gov/occ/resource/ccdf-expenditure-data-all-years.

[xv] Pat Sorenson, Michigan League for Public Policy, "Baby Steps: More Investments Needed to Make Child Care Work for Michigan Families and Children," June 2019, 9.

[xvi] "TANF Financial Data - FY 2018," U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, September 6, 2019, https://www.acf.hhs.gov/ofa/resource/tanf-financial-data-fy-2018.

[xvii] Michigan Association of United Ways, 4.

[xviii] Public Policy Associates, Inc., *2017 Child Care Market Rate Study*, 2018, https://www.michigan.gov/documents/mde/MRS_Final_Rpt_620152_7.pdf.

[xix] Public Sector Consultants, *Building a Better Child Care System*, 2016, https://www.michigan.gov/documents/mde/Building_a_Better_Child_Care_System_534366_7.pdf.