FISCAL BRIEF

CHILD DEVELOPMENT AND CARE (CDC) PROGRAM

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FAST FACTS

- CDC program provides child care subsidies to eligible families.
- Michigan's 2018 CDC allocation was $279.1 million (state/federal mix).
- In FY 2017-18, the CDC program served an average of 34,281 children per month.
- In FY 2017-18, the average monthly caseload (number of eligible families using the CDC program) was 19,609 cases, and the monthly cost per case was $735.
- In FY 2017-18, the CDC program provided child care licensing and monitoring to an average of 8,377 providers per month.

INTRODUCTION

The Michigan Child Development and Care (CDC) program provides child care subsidies for eligible families, oversight of all state child care licensing, and funding to improve the health, safety, and quality of child care opportunities. The CDC program receives funding from the federal Child Care and Development Fund (CCDF), which is authorized under the Child Care and Development Block Grant (CCDBG) and administered by the federal Office of Child Care (OCC). The total FY 2018-19 appropriation for the CDC program is $254.6 million, which includes $202.0 million for the CDC subsidy and $52.6 million for additional departmental program services.

STATE ADMINISTRATION

The CDC program is administered by the Michigan Department of Education (MDE) Office of Great Start and supported by the Department of Health and Human Services (DHHS) and the Department of Licensing and Regulatory Affairs (LARA). MDE is the federally designated lead agency for the program, which means that the federal funds are managed by MDE, and the program uses interdepartmental grants to DHHS and LARA for support services. The duties are divided among the three departments as follows:

- **MDE** is responsible for financial management, billing, policy development, quality assurance, enrollment of License-Exempt Providers, and federal reporting. MDE creates a triennial state plan detailing eligibility criteria, priorities for children served, fee schedules, provider payments, quality improvements, assurance of parental choice, and health and safety requirements.
- **DHHS** is responsible for child and family eligibility determination, case management, and fraud investigations.
- **LARA** is responsible for state licensing of all child care organizations under the child care organizations act, 1973 PA 116, including: issuing and renewing licenses of qualified providers; conducting initial, routine, and follow-up inspections to determine compliance with state and federal requirements; and investigating complaints against state-licensed providers.

Table 1 shows the FY 2018-19 CDC program appropriation, which totals $254.6 million. The program's main expenditure is subsidies for eligible low-income and other eligible families in need of child care in order to work, in order to participate in education or training, or for another qualifying circumstance. Additional expenditures are provided to the departments (MDE, DHHS, and LARA) to provide oversight and quality improvement of all child care facilities in the state. Over the past several years, policy changes enacted by the legislature have been focused on increasing quality, safety, and access to the program and have increased child care subsidies and program support services.

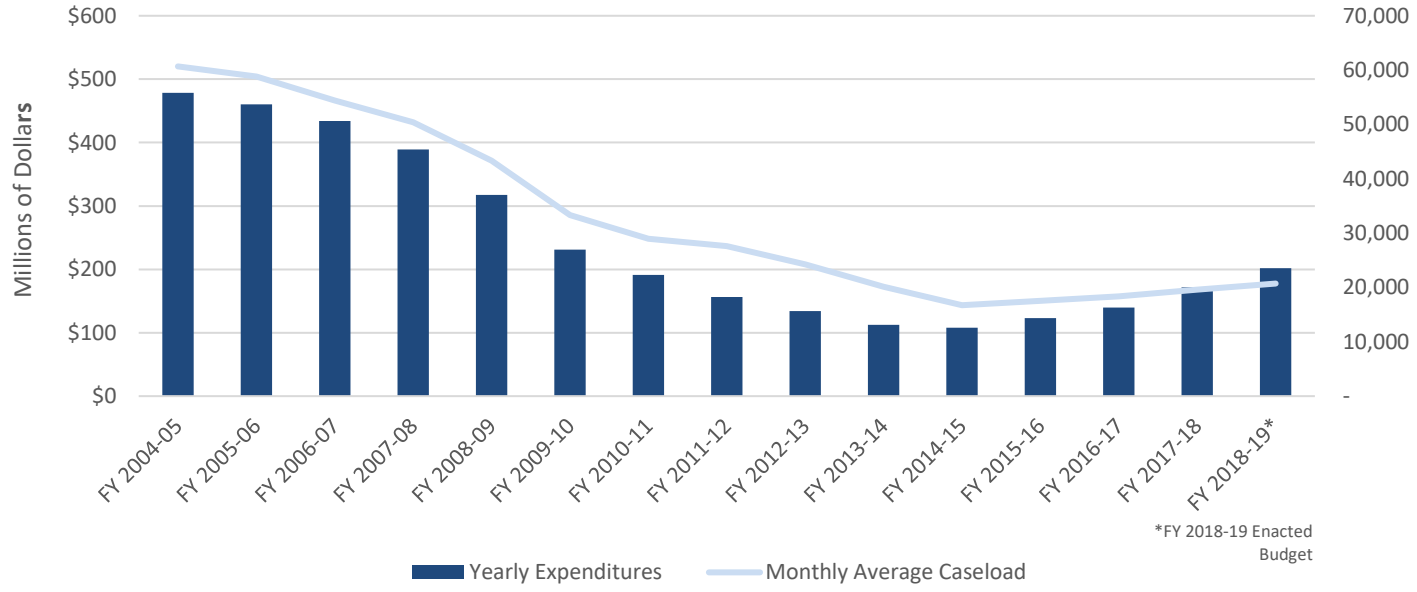
Table 1: FY 2018-19 CDC Appropriation

Child Care Subsidy	$202,000,000
MDE	$23,850,000
LARA	$17,794,900
DHHS	$10,954,700
TOTAL	$254,599,600

Overall Caseload Statistics

Figure 1 shows total yearly subsidy expenditures and monthly average caseload data for the past 15 years. Overall, both expenditures and caseloads decreased from FY 2004-05 to FY 2014-15 and then increased incrementally beginning in FY 2015-16. The downward trends were due to policy changes that tightened eligibility guidelines and requirements for families and providers and also due to economic conditions, especially the high unemployment rates during the Great Recession. Since 2014, economic growth (resulting in more families becoming eligible for child care) and policy changes that expanded eligibility guidelines and increased provider reimbursement rates have increased both monthly caseloads and yearly expenditures. A further discussion of program history and caseloads is provided in **Historical Caseload Statistics and Policy Changes**, starting on page 8.

Figure 1: CDC Expenditures and Caseload Trends



FUND SOURCES

There are two main statutory fund sources for the **Child Care and Development Fund (CCDF)**, which include formula-derived federal and state allocations: the **Social Security Act (SSA)** and the **Child Care and Development Block Grant (CCDBG)**. States can also allocate **Temporary Assistance for Needy Families (TANF)** and additional state funds.

The **SSA** identifies three fund categories that must be spent or obligated in the fiscal year they are allocated:

- **Mandatory:** Funding is 100% Federal. Funding is a fixed amount set at $32.1 million and represents funding levels based on reforms in the Federal **Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA)** of 1996.
- **Maintenance of Effort (MOE):** Funding is 100% State General Fund/General Purpose (GF/GP). Funding above the **Mandatory** level requires the state to first meet a MOE of $24.4 million, which is met through State spending on CDC subsidies and the Great Start Readiness Program (GSRP).
- **Matching:** Funding is a mix of Federal and State GF/GP, and the total mix is based on the number of children under the age of 13 in Michigan compared with the national total of children under the age of 13. Once MOE is met, the state receives federal matching funds at its Federal Medical Assistance Percentage (FMAP) rate, which is 64.45% in FY 2018-19. In FY 2018-19, matching funds are $47.9 million Federal and $26.5 million State.

The Federal **Child Care and Development Block Grant (CCDBG)** program provides the **Discretionary** fund category, which, unlike **SSA** fund categories, may be spent over a two-year period and obligated for up to three years:

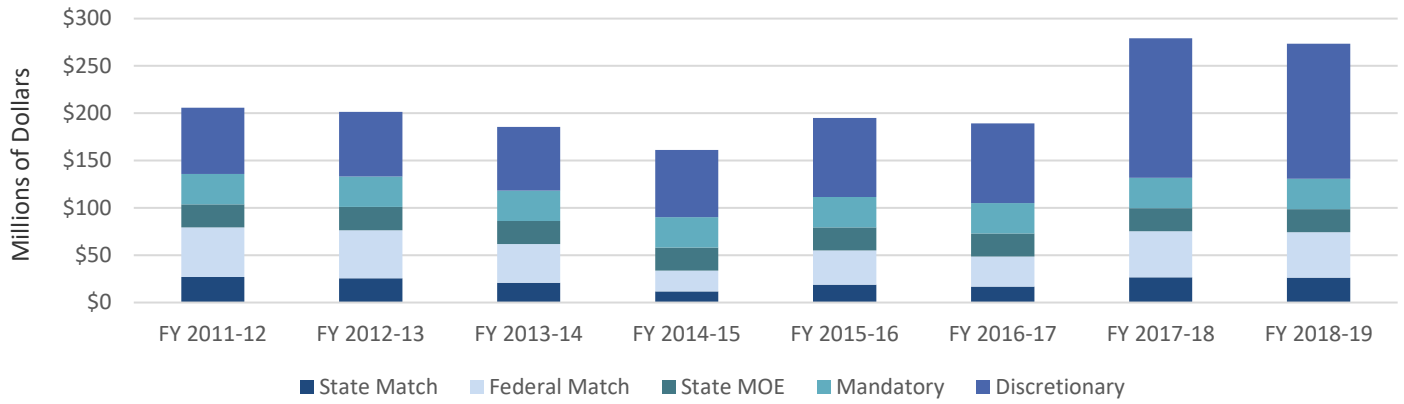
- **Discretionary:** Funding is allocated using a proportional formula based on the following factors: the state's share of children under age five; the state's share of children receiving free or reduced-price lunch; and the state per capita income (averaged over three years).

Other Fund Sources:

- **Federal Temporary Assistance for Needy Families (TANF):** A state may contribute up to 30% of its TANF grant to the CDC program. Since MDE became the program lead agency in 2011, no TANF funds have been appropriated for the CDC subsidy, but DHHS has used between $2.0 million and $12.7 million a year in TANF money to fund its CDC operational budget, which includes activities noted under **State Administration** on page 1.
- **Additional State GF/GP Contributions:** The State can include additional GF/GP contributions above the Matching and MOE requirements. The GF/GP appropriation has not exceeded the MOE/Matching requirement since the CDC program was transferred to MDE in FY 2011-12.

Figure 2 displays a history of fund sources since the CDC program was transferred to MDE through Executive Order 2011-8, followed with its funding through a supplemental, 2011 PA 278 (HB 5014).

Figure 2: FY 2011-12 to 2018-19 Michigan CCDF Allocations



CDC Family and Child Program Eligibility

While MDE establishes the state eligibility requirements subject to legislative authorization, DHHS conducts eligibility determinations. States are permitted a certain degree of flexibility in determining eligibility for children and families, as long as state requirements are within federal minimum and maximum eligibility levels. Child eligibility is based on age, while family eligibility is based on family income and the presence of both a **Need** and **Qualification** reason.

Child Eligibility

Federal guidelines, for most children, set a program ceiling at age 13. For special cases, such as children under court supervision or children who are mentally or physically incapable of self-care, the ceiling is set at age 19. Michigan sets a child eligibility ceiling at age 13 for most children and at age 18 for children with special needs.

Family Eligibility

Federal requirements establish the **Need** reasons for families to be served, and states may serve families in which parents are working, in an education program, or receiving training activities, or that have a protective services order, and whose household income does not exceed 85% of the state median income for a family of the same size. Michigan sets the income entrance threshold at 130% of the federal poverty guidelines and the exit threshold at 85% of the state median income. Families must have a **Need** reason and a **Qualification** reason to be eligible for participation.

A **Need** reason requires meeting one of the following activities:

- **Family Preservation:** Court-ordered activity; treatment activity; condition for which treatment by a physician is required; education as part of a protective services/foster care services plan.
- **High School Completion:** Enrollment in a full-time or part-time educational institution in order to attend classes leading to a high school diploma or its equivalent.
- **Approved Activity:** Employment preparation, training activity, or post-secondary education program.
- **Employment:** Employment or self-employment and recipient of money, wages, self-employment profits, or sales commissions.
- **Flint Declaration of Emergency:** Residence in Flint with a child who satisfies all of the following: child is under age four at the time of application or redetermination; child (or child's mother while pregnant) consumed water from the Flint water system while living, working, or attending child care or other regular activity at an address that was serviced by the Flint water system at any time during the period of April 25, 2014 through August 14, 2016; child currently resides in the Flint water system.[1]

[1] Bridges Eligibility Manual (BEM) 709 for Flint Declaration of Emergency CDC.
https://dhhs.michigan.gov/OLMWEB/EX/BP/Public/BEM/709.pdf#pagemode=bookmarks

A **Qualification** reason in Michigan is achieved through one of the following priority group reasons and/or income determinations:

- **Protective Services:** The child's family has an open children's protective services case (associated with a family preservation need).
- **Foster Care:** The child has an active DHHS foster care case.
- **Family Independence Program (FIP)-Related:** The child or parent has an active or pending FIP case or Social Security Income (SSI) case.
- **Migrant Farmworkers:** The parent or parents declare themselves migrant farmworkers.
- **Homeless:** The family meets the qualifications under the McKinney-Vento Homeless Assistance Act of 1987.
- **State/Federal Disaster:** The family lived in a state/federal disaster area at any time during a disaster/crisis and meets guidelines for receiving services.
- **Income:** Eligibility is currently set at 130% of the federal poverty guidelines.

Table 2 shows the most recent data for total unique children participating in the CDC program, broken out by **Need** and **Qualification** reasons. The most common **Need** reason is Employment (83,497) and the least common is High School Completion (869). The most common **Qualification** reason is Income (79,632) and the least common is Protective Services (95).

Table 2: Michigan Children in CDC Program by Need Reason and Qualification Reason FY 2018*

	Need Reason					
Qualification Reason	**Family Preservation**	**High School Completion**	**Approved Activity**	**Employment**	**Flint Declaration of Emergency**	**Total Unique* Children per Qualification Reason**
Protective Services	93	0	3	13	0	95
Foster Care	84	6	150	3,942	0	4,026
FIP-Related	594	285	13,559	15,070	1	25,813
Migrant/Homeless	35	18	799	2,749	0	3,432
Income Eligible	790	648	13,809	71,455	5	79,632
State/Federal Disaster	0	0	2	6	1,413	1,414
Total Unique* Children per Need Reason	**1,430**	**869**	**22,798**	**83,497**	**1,417**	**98,652**

* Note: In table 2, the number of children in each row, column, and the grand total do not sum because they represent the unique total of children. This will mean that the total number of children per **Qualification** (row) and **Need** (column) reason will add up to more than the total number of unique children. The total number of unique children in the CDC program is 98,652.

ELIGIBILITY STATUS AND FAMILY CONTRIBUTION COPAY

During eligibility status determination, a provider is chosen by the family, and a DHHS case worker determines through MiBridges whether a Family Contribution (FC) copay is required. Eligibility status and the FC Copay are continuous for 12 months (until the next determination period) to allow for temporary changes regarding participation in work, training, or education activities. During redetermination, eligibility can be revoked if family income surpasses 85% of the state median income, the child becomes ineligible, or the family no longer meets a **Need** reason and a **Qualification** reason. Additionally, there is an FC waiver if the family makes less than 100% of the federal poverty guidelines, if the family meets a **Qualification** reason other than income, and/or if the child is enrolled in a licensed child care provider that has at least a 3 star or higher rating in the Great Start to Quality program.

CHILD CARE PROVIDERS

LARA received $17.8 million in FY 2018-19 for the regulation (e.g., licensure, consultation, inspection, investigation, enforcement) of child care organizations.

When enrolling in the CDC program, parents choose a child care provider, with the ability to change providers at any time. Michigan's providers are broken into two main categories, shown below: Licensed Providers (overseen by LARA) and License-Exempt Providers (overseen by MDE).

Licensed Providers include the following:

- **Child Care Center:** A facility, other than a private home, licensed to care for 1 or more children.
- **Group Home:** A private home licensed to care for up to 12 children at a time.
- **Family Home:** A private home licensed to care for up to 6 children at a time.

Licensed Providers must meet minimum standards set by LARA to operate in the state, and may also participate in the Great Start to Quality program, which designates each provider with a star rating (0-5 stars) based on quality indicators.

License-Exempt Providers include the following:

- Adults 18 years or older who provide child care for up to 6 children at a time.
- These 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.
- Providers receive **Level 1** status after completing a seven-hour basic training course and can receive a **Level 2** status after completing an additional 10 hours of training per year through a Great Start to Quality Regional Child Care Resource Center.

Figure 3 provides a breakdown of providers by type in FY 2017-18, the most recent year for which data are available.

Figure 3: FY 2017-18 CDC Providers

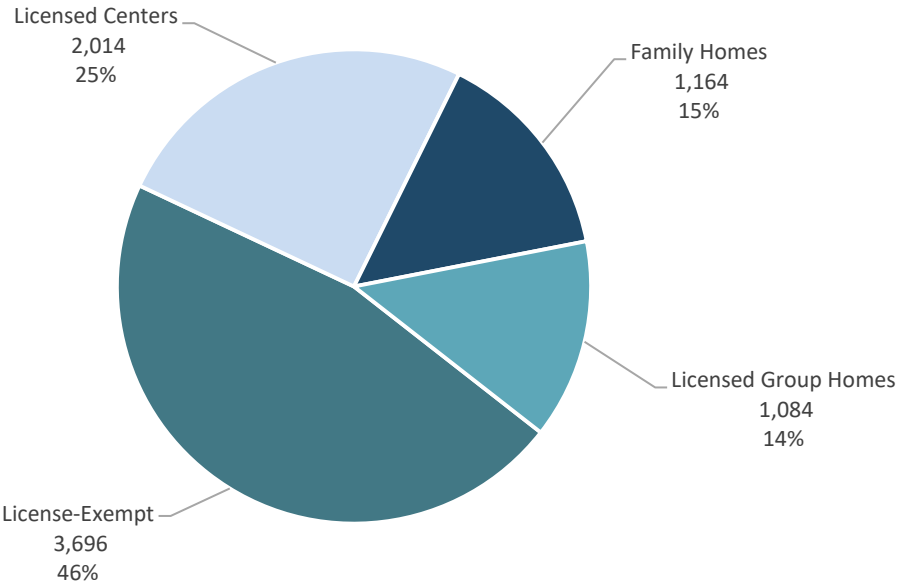
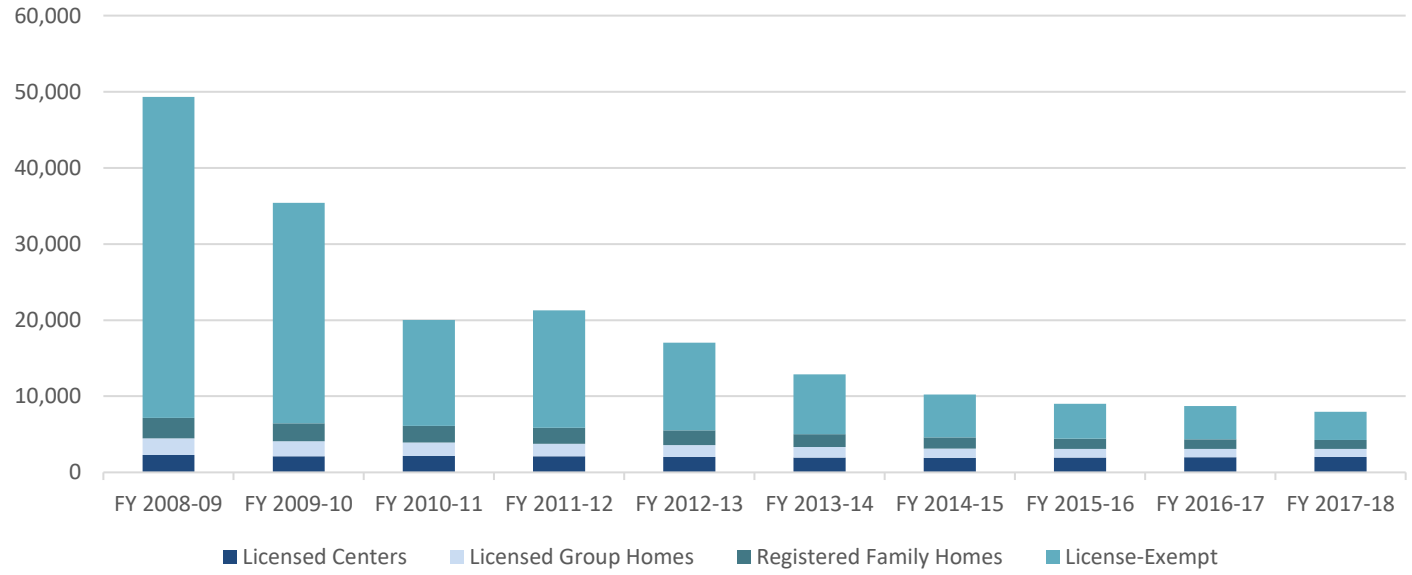


Figure 4 shows an overall decrease in the number of providers providing CDC services since FY 2008-09. The largest change has been among License-Exempt Providers, which declined by 91%. This decline is likely due to stricter policies after Auditor General audits[2,3] found that many license-exempt providers and/or families were not meeting program requirements. Licensed Providers saw reductions as well—Licensed Group Homes and Family Homes dropped by approximately 54% and Centers dropped by 12%. However, this was partly due to economic decline during the recessions occurring during the 2000s and early 2010s. A further discussion of these changes is provided in **Historical Caseload Statistics and Policy Changes**, below.

Figure 4: CDC Services by Provider Type



[2] Child Development and Care Program Payments, July 2008, Office of the Auditor General.
https://audgen.michigan.gov/finalpdfs/07_08/r431030005.pdf
[3] The Suitability of Child Development and Care Program Providers, July 2008, Office of the Auditor General.
https://audgen.michigan.gov/finalpdfs/07_08/r431029905.pdf

PROVIDER REIMBURSEMENT: RATES AND BLOCK SCHEDULE

The CDC program provides hourly reimbursement rates to providers based on provider type (Child Care Center, Group/Family Child Care Home, or License-Exempt status), age of child (Birth to 2 ½ or Over 2 ½), and Great Start to Quality Star Rating, as seen in Table 3, below.

Table 3: Hourly Reimbursement Rates by Program Type, Quality Rating, and Age of Child

	Child Care Centers		Group/Family Child Care Homes	
	Birth to 2 ½	Over 2 ½	Birth to 2 ½	Over 2 ½
Base Rate	$4.00	$2.75	$3.15	$2.65
1 Star Rate	$4.00	$2.75	$3.15	$2.65
2 Star Rate	$4.25	$3.00	$3.40	$2.90
3 Star Rate	$4.75	$3.50	$3.90	$3.40
4 Star Rate	$5.00	$3.75	$4.15	$3.65
5 Star Rate	$5.50	$4.25	$4.65	$4.15
	License-Exempt Providers			
	Birth to 2 ½		Over 2 ½	
Level 1	$1.60		$1.60	
Level 2	$2.95		$2.60	

During March 2019, the CDC program transitioned from the hourly reimbursement system to a block schedule reimbursement system for Licensed Providers. The program change still uses the hourly reimbursement rates for Licensed Providers based on provider type, age of child, and Great Start to Quality Star Rating, as seen in Table 3, above. However, instead of being reimbursed for the exact number of hours for which care is provided, Licensed Providers are reimbursed under one of the following schedule payments:

- 1-30 hours: paid at the hourly tiered reimbursement rate
- 31-60 hours: paid as 60 hours at the hourly tiered reimbursement rate
- 61-80 hours: paid as 80 hours at the hourly tiered reimbursement rate
- 81-90 hours: paid as 90 hours at the hourly tiered reimbursement rate

License-Exempt Providers are still paid at their hourly tiered reimbursement rate.

HISTORICAL CASELOAD STATISTICS AND POLICY CHANGES

Figure 1 above shows the expenditures and average monthly caseload data for the past 15 years. Overall, both expenditures and caseloads decreased from FY 2004-05 to FY 2014-15 and then incrementally increased over the next several fiscal years.

Prior to the time period shown in Figure 1, total CDC program costs and caseloads had been rising, and total expenditures peaked at $499.2 million in FY 2002-03. At that point, the former Department of Human Services (DHS) reduced program expenditures by: (1) reducing maximum billable hours from 140 to 100 hours per child and (2) initiating an entrance income threshold of 121% of the federal poverty guidelines.

The downward trend in total program expenditures and caseloads continued between FY 2004-05 and FY 2014-15 as seen in Figure 1. The downward trends were driven by Auditor General audits and subsequent policy reforms, other cost-reducing program policy changes, and economic decline over that period.

The Auditor General audit reports indicated that the former DHS did not have effective control mechanisms to prevent ineligible families/children from entering or continuing to stay in the program or to prevent reimbursement to providers that either did not meet program standards or inappropriately billed the CDC program. These audits led to tightened eligibility guidelines, especially for License-Exempt Providers, after which the program saw a subsequent sharp decline, as shown in Figure 4, above.

Program policy changes further reduced reimbursable hours from 100 hours to 90 hours in FY 2007-08 and from 90 hours to 80 hours in FY 2010-11.

Finally, the Great Recession beginning in late 2007 led to an increase in the Michigan unemployment rate from 7% in 2007 to 13.7% in 2009. Increased unemployment meant fewer families were able to claim a **Need** reason for employment, which is the **Need** reason under which families most commonly qualify for the CDC program. As Michigan's unemployment rate has dropped, the number of qualified cases based on employment has increased.

Policy changes since FY 2013-14 have slowed the decline in CDC expenditures and caseloads and incrementally increased them by increasing both the number of cases and the cost per case.

There are several policy changes in recent years that have maintained and increased caseload levels. A program exit threshold of 85% of state median income and the 12-month continuous eligibility period prevent removal from the program due to an increase in a family's gross monthly income or temporary changes in eligibility status. Increases in the entrance threshold from 121% to 130% of the federal poverty guidelines over the past two fiscal years have increased the number of eligible families.

Additionally, policy changes have increased the cost per case. A tiered reimbursement system was implemented that pays licensed providers based on their Quality Star Rating, as seen in Table 3. The tiered quality rating system pays incrementally more for higher rated providers, and costs have continued to grow as providers move up the rating scale. In FY 2017-18, the state also increased provider reimbursement rates in an attempt to more closely match the federal recommendation that reimbursement rates equal the 75th percentile of market rates. However, the state does not currently meet all of the tiered ratings, especially for children above 2 ½ (generally referred to as preschool and above children).[4]

The shift to a block reimbursement schedule will further increase caseload costs because providers will be reimbursed for a certain block of hours rather than only the hours a child was in their care. For example, under the former hourly reimbursement system, if a child was in a Licensed Provider setting for 50 hours, the provider was reimbursed for 50 hours. Under the block reimbursement schedule, if a child is in a Licensed Provider setting for 50 hours, the provider is reimbursed for 60 hours, since the child is in a 31-60 hour block. Therefore, the program is now reimbursing for 10 more hours under the block reimbursement system than under the hourly reimbursement system.

There were several reasons for the change from hourly reimbursement to the block schedule reimbursement. First, in the state plan that MDE submits for the federal CCDF program, it is required to state whether it is meeting a requirement to "use CCDF payment practices that reflect generally accepted payment practices of child care providers who serve children who do not receive CCDF-funded assistance."[5] The generally accepted payment

[4] Michigan Child Care Market Rate Survey. https://www.michigan.gov/documents/mde/MRS_Final_Rpt_620152_7.pdf
[5] Child Care and Development Fund (CCDF) Plan for Michigan FFY 2019-2021. https://www.michigan.gov/documents/mde/FY19-21_Submitted_State_Plan_Draft_ADA_631732_7.pdf

practice in Michigan is something close to a block schedule reimbursement or a more scheduled set of hours such as part-time care and full-time care. In either of these two methods, providers can better plan staffing and resources that they need. This leads to the second reason, which is that child care providers have noted in the past Market Rate Survey (MRS) that being paid on a daily or weekly schedule of payments, rather than hourly, would provide stability and efficiencies in resources and staffing (wages and benefits are the biggest cost for providers).[6] Providers have noted reluctance to accept the CDC subsidy because of the reimbursement method, and this is likely one of the factors contributing to the drop in the number of licensed providers providing services, as seen in Figure 4, above.[7]

[6] Michigan Child Care Market Rate Survey.
[7] Michigan Child Care Market Rate Survey.