
Introduction

Like other states, Minnesota pays a portion of the child care expenses of certain low-income families. The primary purpose of Minnesota's Child Care Assistance Program is to help low-income families pursue employment or education leading to employment. By facilitating employment, the program attempts to reduce the reliance on other public assistance programs.

The program is funded largely with state and federal government funds. Due to state budget shortfalls, the 2003 Legislature implemented several measures to reduce state spending on child care assistance. The Legislature reduced the appropriation for the basic sliding fee component of the program and increased co-payments for all families receiving child care assistance. In addition, the 2003 Legislature instituted a two-year freeze on the maximum reimbursement rates paid for subsidized licensed child care and reduced the maximum rates for non-licensed care. Prior to this freeze on licensed reimbursement rates, the state was adjusting the maximums annually based on the rates charged to unsubsidized customers by child care providers.

Our evaluation focused on the maximum reimbursement rates used in the Child Care Assistance Program.

The 2003 Legislature required the Department of Human Services (DHS) to study the Child Care Assistance Program and report back by January 15, 2005 with recommendations for controlling the future growth in child care assistance costs. But, some legislators were concerned about the quality of information received from DHS regarding child care assistance during the 2004 legislative session and wanted an impartial, third-party review of selected aspects of the program. As a result, in April 2004, the Legislative Audit Commission directed the Office of the Legislative Auditor to conduct a study of the methods used by DHS to establish maximum reimbursement rates. In this report, we address the following issues:

- **Does the Department of Human Services use appropriate methods in conducting surveys of child care provider rates?**
- **Are the department's methods of calculating maximum reimbursement rates reasonable and consistent with state statutes?**
- **How do the rates charged for subsidized care compare with the maximum rates set by the state? Do most providers simply charge the maximum rates set by the state?**
- **Do subsidized families tend to select the most expensive care available in their area? What do available data suggest about how the type of child care used by subsidized families differs from that used by unsubsidized families?**
- **To what extent has the freeze on maximum reimbursement rates affected the access of program participants to child care?**

- **Could Minnesota set lower maximum reimbursement rates and still comply with federal laws and regulations? What would be the advantages and disadvantages of setting lower maximum rates?**

To conduct this evaluation, we reviewed applicable state and federal laws and regulations and national studies on child care assistance programs. In addition, we interviewed Department of Human Services staff and selected individuals involved with the Child Care Assistance Program including county government staff, child care providers, and representatives of interest groups.

We reviewed the methods used to survey child care providers about their rates, and we analyzed rate data from the last three surveys. We examined the rate information obtained during the 2001 survey in detail, since that survey was used to set the maximum reimbursement rates that are currently in effect and have been in effect in some parts of the state since July 2002. We also examined child care assistance payment data from Hennepin County and from those counties that use the state payment system called the Minnesota Electronic Child Care Information System (MEC²). Finally, we analyzed data from several sources on the use of different types of child care providers by subsidized and unsubsidized families.

Data limitations affected our ability to answer some questions asked by legislators.

While we were able to complete our study, there are a number of data limitations that affected the extent to which we could answer the questions raised by legislators. First, Minnesota does not yet have a statewide payment system. In recent years, the number of counties using the state's payment system has gradually increased. But, as of July 1, 2004, only 38 of the state's 87 counties had all of their child care assistance payments made by the state. As a result, we were unable to systematically examine the child care assistance payments in most counties. Second, the state does not have a statewide database that identifies which providers serve subsidized children and the percentage of a provider's enrollment or capacity that is accounted for by subsidized children. Consequently, we could not identify providers that are highly dependent on the Child Care Assistance Program and compare changes in their rates with those of other providers. Third, complete information on how the 2003 legislative changes affected program participation, program expenditures, the use of different types of child care, and the number of providers was not available during our study. That information may now or soon be available from the Department of Human Services. Fourth, the most recent data available on the use of various types of providers by subsidized and unsubsidized families and by families of various incomes was from a 1999 Wilder Foundation survey. Data from a 2004 survey will soon be available and could be used to provide a more up-to-date answer to some of the questions asked by legislators. Finally, due to a change in the software used to track providers and rates, the Department of Human Services could not provide us with the names of providers whose rates were included in the 2001 rate survey. That survey was the one used to set the maximum rates currently in effect. As a result, we could not fully answer some questions legislators had about maximum rates set in their counties or track how the rates of particular providers changed over time.

Chapter 1 of this report describes Minnesota's Child Care Assistance Program, including its funding, the number of participants, and the use of various types of child care. We also discuss the role of the Department of Human Services in establishing maximum reimbursement rates and the federal government's

requirements for the process of setting maximum rates. Chapter 2 evaluates the department's methods for surveying child care providers and using information about their rates to set maximum reimbursement rates. In particular, we examine whether the department has set maximum rates that are consistent with actual rates and statutory requirements. We also compare the basic methods used to set maximum rates in Minnesota with those used in other states.

Chapter 3 reviews the response of providers and participants to the availability of child care assistance and the setting of maximum reimbursement rates. We examine whether providers typically adjust their rates to the maximum rates allowed by the state. We also examine whether subsidized families tend to select higher-priced child care than non-subsidized families. Furthermore, we consider how the freeze on maximum rates has affected the access of program participants to child care. Finally, in Chapter 3, we discuss the advantages and disadvantages of using alternative methods for setting Minnesota's maximum rates that would produce lower maximums than have typically been set in the past.

