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BILL ANALYSIS

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Senate Bill 836 (as reported without amendment)
Sponsor: Senator Kristen McDonald-Rivet
Committee: Housing and Human Services

CONTENT

The bill would enact a new law to require reimbursements made to a child care provider under the Department of Lifelong Education, Advancement, and Potential's (MiLEAP) Child Development and Care Program to be adjusted annually at the rate of the Detroit Consumer Price Index (CPI).

BRIEF RATIONALE

As of 2022, Michigan ranked 39th in the country in labor force participation, with 14% of parents leaving a job due to childcare issues during the first half of 2023. According to testimony before the Senate Committee on Housing and Human Services, the relatively low labor force participation ranking is in part because of the State's struggling childcare industry. Some believe that the State is not doing enough to address the needs of working parents and childcare providers, reporting that it takes approximately $15,000 annually to provide full-time care for a child under five. Given the cost of child-caring and the cost child care providers incur to offer these services, it has been suggested that child care provider reimbursement rates under the Child Care Development and Care Program be adjusted at the rate of the CPI.

Legislative Analyst: Eleni Lionas

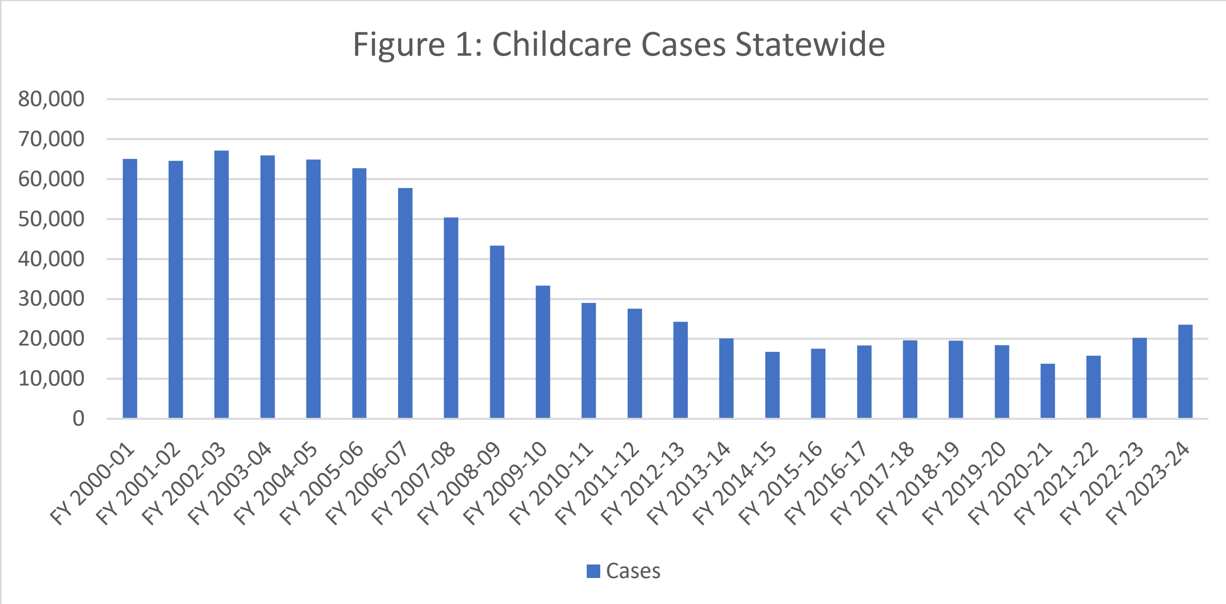
FISCAL IMPACT

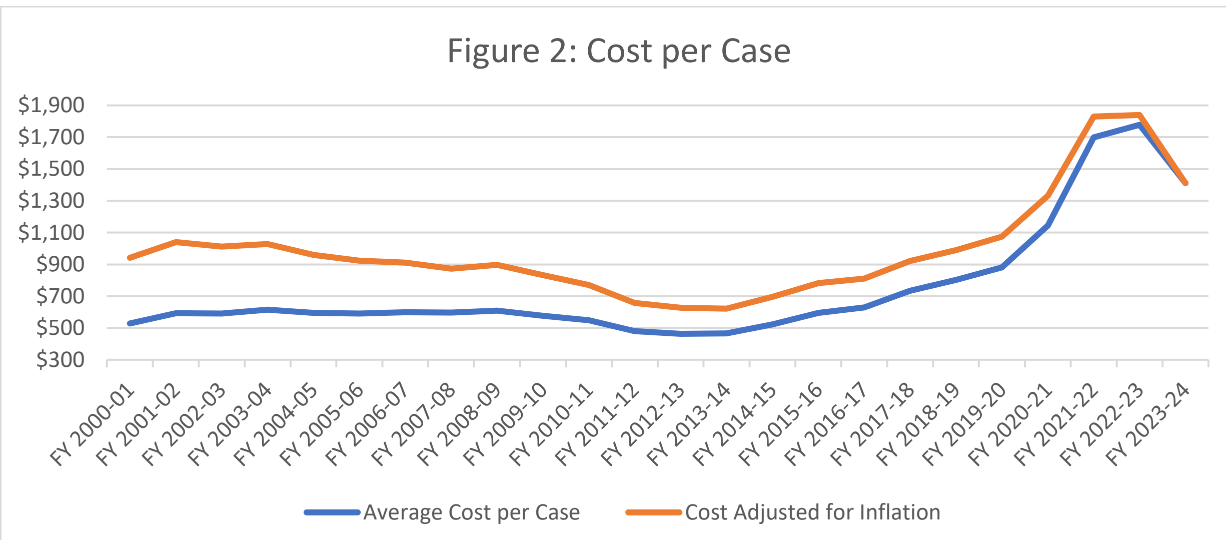
The bill would have a significant, likely negative, fiscal impact on the State. By requiring that provider rates be adjusted by the rate of inflation, per the Detroit CPI, the bill would essentially set a floor for provider payments starting on the date of enactment of the bill.

Currently, provider rates are largely based on available funding and caseload amounts. For example, in Fiscal Year 2018-19, the base reimbursement rate for an infant at a child care center was $4 per hour. With the passage of the Federal Coronavirus Aid, Relief, and Economic Security Act (CARES), Michigan was awarded an additional $100.0 million under the Child Care and Development Block Grant. As a result, by Fiscal Year 2021-22, the base rate for an infant at a child care center jumped to $8.40 per hour. As pandemic-related, onetime increases in Federal funding have begun to lessen, that same rate has come down and now stands at $7.15, effective September 22, 2024.[1]

Factors other than Federal funding also affect provider rates. The largest of these is the number of caseloads, which are currently rising annually but have been historically low compared to decades past. Figure 1, below, provides a history of caseloads. Figure 2 provides a history of costs per case, which are directly correlated to provider rates.

[1] Current reimbursement rates for all categories (infant, preschool, school-age; centers, group, & family homes) can be found on MiLEAP's website, here.





After dropping to a historic low of 13,750 in Fiscal Year 2020-21, child care caseloads are starting to rise again in correlation with per case spending; currently at 25,546 according to the latest available figures.[2]

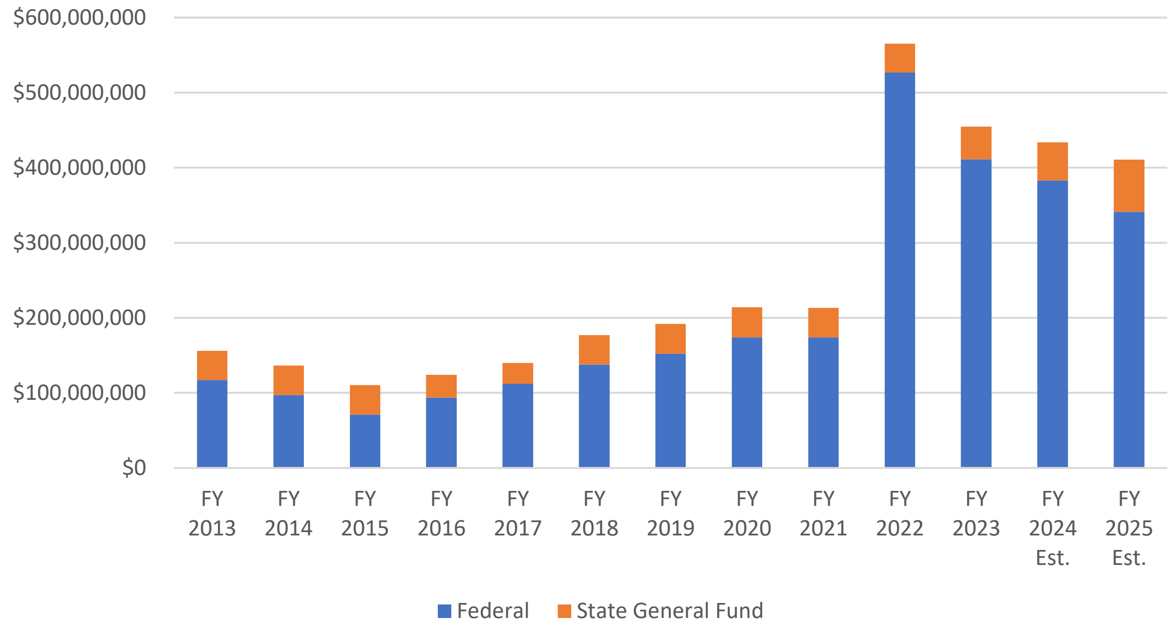
By setting a floor for provider rates, Michigan would halt any further decrease in per case spending for State-subsidized childcare. The reason the fiscal impact would likely be negative is due to the likelihood of significant inflation in the foreseeable future and the rise of child care caseloads; both would raise costs for State-assisted child care under the language of the bill. The degree of the fiscal impact is indeterminate; however, an increase in costs would likely need to be covered with General Fund/General Purpose dollars or Federal assistance.

[2] See DHHS Greenbook Report of Key Program Statistics for October 2024, Table 41.

Alternatively, a rise in provider rates and overall costs could be offset by other mitigating factors, such as restricting eligibility, currently set at 200% of the Federal Poverty Level.[3]

Current State spending on the child development and care line is predominantly covered with Federal funding (See the brief history of spending in Figure 3 below). Most of the Federal aid spending on this line comes from an annual Federal Child Development and Care Block Grant. Michigan receives over $244.0 million annually in baseline aid for this program;[4] however, current Federal expenditures exceed Federal revenues by about $80.0 million. There is no shortfall in the current fiscal year because these Federal funds carryover from year to year, and Michigan currently has a carry-forward balance. This carry-forward balance of Federal Aid for State-assisted child care is expected fall into the negative numbers by Fiscal Year 2025-2026, at which point Federal aid will need to be increased, another source of revenue will need to be used, or cuts will have to be made.

Figure 3: Child Development and Care Public Assistance Line Item Spending



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[3] See 2024 Federal Poverty Guidelines.

[4] See current Child Care Development Fund (CCDF) Allocations.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.