



2023 Budget Investments into Minnesota's Child Care System Pave the Way for a Brighter Future

There is an urgent need for Minnesota to make significant investments in our child care system so that all Minnesota families can afford care, children's well-being and development is supported, and parents aren't kept out of the workforce due to lack of care.

In the budget decisions they made in the 2023 Legislative Session, policymakers have taken important steps by investing in the state's Child Care Assistance Program (CCAP), Early Learning Scholarships, the child care workforce, and child care providers.¹

Public policy solutions seek to address the fundamental problem that Minnesota families struggle to afford child care while, at the same time, those working to provide this essential care and early education are paid notoriously low wages.² The reimbursement rates that the state has paid to child care providers often doesn't cover the cost of providing care, making a challenging business model even more challenging. This legislative session, policymakers successfully utilized a portion of the state's projected budget surpluses to make an impact on these fundamental challenges, build a better future for our youngest Minnesotans, and strengthen an essential component of family economic security.

Increasing access to affordable child care

By making significant policy changes and investing additional funds into Minnesota's Child Care Assistance Program and Early Learning Scholarships, policymakers have expanded affordable child care to more families. The Child Care Assistance Program brings down the cost of child care for lower-income families so that parents can go to work or to school. Child Care Assistance reimburses child care providers for taking care of eligible children and families pay a sliding-scale co-payment based on their family income.³ Approximately 15,000 families and 30,000 children each month have affordable child care as a result.

The health and human services omnibus budget bill includes additional funding for Child Care Assistance to increase the number of families served, adopting proposals from Governor Tim Walz and the Minnesota House to allocate an additional \$30 million per biennium for FY 2024-25 and FY 2026-27. These additional funds will make child care more affordable for roughly 560 additional families (1,120 additional children) in the first year, and up to 500 more families (1,000 children) in the following years.

This session policymakers expanded the kinds of families that can qualify for child care assistance to include foster families and custodians, recognizing the importance of the care that they provide.

In June 2023, just under 3,000 families were on the waiting list for the Child Care Assistance Program because policymakers had not allocated enough funds to serve all the families who are eligible.⁴ As a step toward serving all qualifying families, policymakers reprioritized the CCAP waiting list. They did so by building on action taken in 2021, when policymakers temporarily reprioritized the waitlist, making technical changes to which families qualify in what order.⁵ These changes mean families spend less time on the waiting list and more families can be reached overall. The investment of \$7.8 million in FY 2024-25 and \$17 million in FY 2026-27 will allow for the reprioritization changes to be made permanent.

Another mechanism for lower-income families to access affordable child care is through Early Learning Scholarships. Early Learning Scholarships differ from Child Care Assistance in that they are limited to a narrower age range of children and are not specifically tied to care needed so parents can work or go to school. While individual scholarship amounts vary, in fiscal year 2022 there were roughly 12,000 scholarships awarded.⁶

The early education omnibus budget bill expanded the age range for eligibility for Early Learning Scholarships. Current eligibility prioritizes children aged 3 to 4 and only includes younger children under certain limited conditions.⁷ The new provision will expand eligibility to include children aged 0 to 4 who otherwise qualify, and invests an additional \$252 million in FY 2024-25 and \$59 million in FY 2026-27 to reach this wider age group and more families overall.

Important investments made to strengthen the child care workforce

The health of the child care workforce is critical to ensuring access to affordable child care. This session policymakers invested \$316 million in FY 2024-25 and \$260 million in FY 2026-27 for Great Start Compensation Support Payments. These payments build off previous Child Care Stabilization grants made available to the child care sector during the federal public health emergency. Child Care Stabilization Grants were created using one-time federal American Rescue Plan dollars to support the child care sector's operational expenses, employee wages, business consultation, and facility revitalization.

The new state-funded Great Start Compensation Support payments will be available to child care providers based on the number of staff who regularly care for children, and specifically cover increases in compensation and benefits for child care workers in eligible programs. Because the original Child Care Stabilization Grants are coming to an end, policymakers allocated \$43 million in FY 2024 to continue Stabilization Grants until Great Start Compensation payments begin.

The payments are designed to improve access to early care and learning in Minnesota by strengthening the ability of child care providers to recruit and retain child care workers. Payments will also bring child care worker compensation closer to a living wage, which is critical for the financial health and stability of the workforce. Workers with a high school diploma, GED, or associates degree are on average, being paid at or below what it takes for these workers to support themselves and their families.⁸

Improving wages and job quality for child care workers is both necessary to reflect the value of the work they do, and address racial and gender disparities in the workforce. Minnesota's child care workforce is disproportionately comprised of Black, Indigenous, People of Color (BIPOC) Minnesotans and women. People of color make up 23 percent of the child care workforce, which is higher than the average for other industries - around 15 percent.⁹ In addition to low wages, child care workers are less likely to receive important employer-sponsored benefits, such as health insurance. Nationally, the general workforce is three times more likely to be covered by employer-provided health insurance coverage than are child care workers.¹⁰ These low wages and lack of benefits severely undervalue the important work that these folks do in taking care of some of our youngest community members.

Child care provider reimbursement rates increased to the 75th percentile

Policymakers invested \$146 million in FY 2024-25 and \$277 million in FY 2026-27 to make the long-needed policy change to increase the reimbursement rates the state pays to child care providers through Child Care Assistance to better match actual market rates.

By increasing the CCAP reimbursement rate to the 75th percentile of the most recent market survey, Minnesota now will have rates that meet federal recommendations to ensure families can better afford child care, have more choices for providers, and experience less financial hardship.

Before this increase, reimbursement rates fell well short of the federal recommendation; they were the 40th percentile for infants and toddlers, and the 30th percentile for preschool and school-aged children. When payment rates are too low, providers are not as able to serve families who participate in CCAP, since they receive lower reimbursement rates than what they would earn from families in the private market.

Maintaining higher reimbursement rates will help families from across the state find the child care they need, and ensure providers are able to continue providing quality, culturally specific, and affordable care.

Smart investments into child care will support Minnesota families

This session, policymakers made important investments in affordable child care that will strengthen the economic security and well-being of Minnesota families and communities. They have taken steps toward the best future for children and families, so that parents can work or go to school, children get off to a strong start, and employers can attract and retain the workers they need.

By Jessie Luévano

¹ Except where otherwise noted, the analysis in this report is based on data from budget documents prepared by Minnesota Management and Budget and the applicable state agencies, and legislative research and fiscal departments. The opinions expressed are those of the Minnesota Budget Project.

² Center for American Progress, [Early Learning Fact Sheet: 2021: Minnesota](#), December 2021.

³ Minnesota Department of Human Services, [Child Care Assistance](#), August 2023.

⁴ Minnesota Department of Human Services, [Child Care Assistance Program Basic Sliding Fee Waitlist: June](#), June 2023.

⁵ Minnesota House Research, [Bill Summary: H.F. 13](#), February 2023.

⁶ Minnesota Department of Education, [Early Learning Scholarships](#), Accessed September 2023.

⁷ Minnesota Department of Education, [Early Learning Scholarships](#).

⁸ Great Start Task Force, [Final Report: Great Start for All Minnesota Children Task Force](#), February 2023.

⁹ Minnesota Department of Employment and Economic Development, [Early Care and Education: Profile of an Industry in Crisis](#), September 2020.

¹⁰ Economic Policy Institute, [Child care workers aren't paid enough to make ends meet](#), September 2015.