MOVING THE GOAL POSTS

The shift from child care supply to child care quality

Public Policy Forum

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ABOUT THE PUBLIC POLICY FORUM

The Milwaukee-based Public Policy Forum – which was established in 1913 as a local government watchdog – is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of southeastern Wisconsin through objective research of regional public policy issues.

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EXECUTIVE SUMMARY

As policymakers in Madison redesign the state's child care subsidy program – known as Wisconsin Shares – it is important to understand the original vision for the program. This report investigates the development and implementation of Wisconsin Shares and its linkages to the state's landmark W-2 welfare reform initiative. In particular, we explore how the specific foundational child care policies enacted to effectuate W-2's larger reform goals impacted child care quality, and the consequences for those now seeking to redesign the program.

We find that the paramount goal of Wisconsin Shares' designers was to rapidly produce sufficient child care capacity to serve thousands of families transitioning from welfare to work. Conversely, the creation of high quality child care centers – the type that research shows can produce significant dividends for disadvantaged children by making them better prepared to succeed in school – was not an explicit goal, though policy debates at the time included discussion about how quality would be impacted by the new system, and in later years the state funded some quality improvement efforts.

With the benefit of nearly 15 years of hindsight, it is now apparent that the key child care policies implemented in conjunction with the implementation of W-2 contributed significantly to the achievement of welfare reform's larger goals, but failed to promote child care quality. This experience provides insights for those now seeking to revamp the child care subsidy program, while also illustrating the challenges inherent in attempting to enhance child care quality by transforming a system that was initially designed with much different objectives in mind.

Keystone welfare reform policy goals related to child care

Our analysis of legislative and administrative documents, transcripts of legislative committee meetings and public hearings, news reports, and other sources, reveals the four primary goals of the designers of W-2 with respect to child care:

1. A focus on work, treating child care as a work support and potential source of employment for low-income families, and not as a means for educating children;
2. Prioritizing parents' choice of their child care provider;
3. Quickly expanding the supply of child care so as to fast-track welfare reform's implementation and create jobs; and
4. Prioritizing the affordability of child care, both for families and the state.

Wisconsin Shares policies serving W-2 goals

Effectuating those policy goals required a series of calibrated child care policies. This report focuses on four initial child care policies established by the architects of W-2 to achieve the goals cited above and the overriding objective of reducing welfare caseloads and easing the transition of low-income parents from welfare to work:

1. Creating a ***new, less-regulated category of care provider,*** as a means of allowing parents broader choices in providers, quickly creating jobs, and keeping child care costs low for parents and the state.
2. Sharing costs with parents by ***basing co-payments on the cost of care,*** as opposed to the parents' income, in order to allow parents to opt for more costly care at their own discretion, while also lowering costs for the state.
3. Creating a ***more restrictive definition of "low-income,"*** in order to serve the working poor in general, and not just those obtaining or seeking jobs as part of the W-2 program.
4. ***Tying subsidy rates to prices in the private market,*** in order to provide low-income parents with access to the entire market while also relying on competition to keep the state's costs in check.

We find that each of these policies – while in some cases furthering the larger objectives of W-2 – had detrimental and unintended impacts that will complicate today's efforts to reform Wisconsin Shares. Those impacts include:

- A dramatic increase in overall costs of the subsidy program without a corresponding improvement in quality. Significant fraud in the system also has contributed to the large expense. Today, Wisconsin Shares is a very costly program that does little to encourage high-quality care.
- A child care subsidy system largely built on incentives designed to increase child care supply as quickly and cost effectively as possible. Many of those incentives remain in effect today, despite the fact that the initial flood of individuals transitioning from welfare to work leveled off years ago.
- A child care market in Milwaukee County with so many subsidized parents that there are not enough private payers to establish a true private market. The subsidy, therefore, is not based on a competitive market and providers have no incentive to compete on price or on quality.

Implications for YoungStar

YoungStar is a five-star quality rating and improvement system that is intended to rate provider quality, link subsidy rates to quality, and provide information about quality to parents as they choose a provider. This initiative reflects a transformation in the philosophical underpinning of the Wisconsin Shares program.

In particular, YoungStar is designed to go beyond the health, safety, and nutritional regulations that until now have been a major focus of state policy with regard to child care quality. YoungStar includes educational content, the learning environment, and provider business practices among the factors to be considered in determining each provider's rating. By offering higher subsidy rates for higher ratings, Yougstar should directly incentivize higher educational quality and shift the focus to securing a sufficient supply of *quality* care, as opposed only to a sufficient supply of care in general.

Implementation of this approach – particularly in Milwaukee County – poses several challenges, however. In particular, the impacts of the following proposed YoungStar policies on the quality of early childhood care may require additional scrutiny:

- **Stepping up collections of co-payments from parents.** While participating providers in Wisconsin Shares should collect co-payments from parents, that requirement has not been vigorously enforced. In conjunction with the implementation of YoungStar, the Department of Children and Families (DCF) now intends to do so, by contractually obligating providers to collect parent co-payments. There is concern, however, that an enforced co-payment requirement will cause providers who serve mostly low-income families to leave the program if they are not able to collect the co-payments, even if they are providing quality care. The department acknowledges this risk, but argues that enforcing the co-payment requirement will benefit quality by generating more income for providers to invest in their businesses. There also is a potential detrimental effect if parents who cannot afford to make weekly co-payments leave the regulated child care market and opt for informal, unregulated care.

- **Keeping income eligibility limits for working families at current levels**. The pool of families eligible for Wisconsin Shares subsidies is growing because Wisconsin family incomes are not, which swells overall program costs. As more money is tied up in providing access to care, less will be available to improve the quality of care. Options for cutting costs would be to reset eligibility limits to exclude more families, or to appropriate a sum-certain amount and create a wait list for the subsidy. Both of those options, however, would retreat from the goal of serving all the state's low-income families. So far, DCF has sought to control overall costs by identifying and eliminating fraud and waste in the system – a vital and laudable goal, but one that might eventually run its course once fraudulent providers are identified and eliminated.

- **Tying subsidy rates to quality so as to incentivize quality improvements.** The higher subsidy rates have the potential to "correct" the private market by linking quality to price. There is a risk, however, that private pay families will not be able to afford the higher rates charged by quality providers (who may raise their rates to match their higher level of subsidy). If that were to happen, such families may have to seek *lower* quality options than they are using today. In addition, because YoungStar has been designed to be revenue neutral (at least initially), most providers will continue to earn the same subsidy rate after the initial round of rankings as they do today. If providers are not certain their investments in quality will result in higher subsidies, they may not see YoungStar as an incentive to improve; and without a stick in the form of potentially lower rates, the carrot may not be enticing enough.

Conclusion

We find that while many of the objectives associated with the four original child care-related policy goals of W-2 were met, the policies enacted to achieve those goals had detrimental effects on the quality of child care in Wisconsin. Also, a key objective that was not achieved was keeping the state's costs under control. Because the policies implemented did not attempt to tie the subsidy rates to quality, the end result has been a very expensive program of mostly lower-quality care.

While YoungStar certainly has potential to improve quality, those implementing the program may wish to pay careful attention to the following cautions gleaned from a retrospective examination of the history of Wisconsin Shares:

1. Policies designed to fund child care as a work support differ fundamentally from policies designed to fund high-quality early childhood care and education. Those seeking to implement YoungStar must determine whether policies aimed at creating and sustaining child care jobs and providing robust consumer choice – including the continued existence of provisionally certified providers – are still relevant and consistent with the quality-focused objectives of YoungStar.

2. Unintended consequences regarding the quality of child care and early childhood education are possible both from intervening in the child care market and from *not* intervening. For example, requiring co-payments may put child care out of reach of some parents, but not requiring collection of co-payments may allow providers to compete on economy rather than on quality. Whether and how to aggressively enforce co-payments without contradicting the goals of YoungStar is one of the most challenging dilemmas facing program architects.

3. Controlling costs in the face of growing subsidy program participation has been a daunting challenge for the state, and will be even more so when dovetailed with a new goal of incentivizing quality. The state's efforts to control costs during the early years of W-2 were stymied by the lack of growth in family incomes, which caused the pool of eligible families to increase. Identifying the financial resources to reward quality during a time of increasing need among Wisconsin families may require limiting the supply of subsidies, restricting program eligibility, or both.

4. Aligning profit incentives with quality incentives may be the most effective way to avoid encouraging low-quality care for Shares participants, but other challenges may emerge. Allowing subsidy rates to be disconnected from the cost of care has resulted in subsidy rates so high that providers have little need to compete on quality. Yet, while YoungStar holds great potential to create a more market-based and quality-driven subsidy program, controlling costs may still be an obstacle, and incentivizing high quality among providers that serve mostly cost-sensitive, private pay families may prove difficult.

But perhaps the most important lesson to be learned from this history, if policymakers hope to mitigate unintended consequences, is that they must carefully consider all the potential outcomes of their policy decisions and be flexible as regulations are tested. Just as Wisconsin Shares policies were very dynamic in the years after initial implementation, YoungStar policies may need frequent tinkering.

A proven, robust relationship exists between higher-quality early childhood care and education and positive outcomes in children such as greater academic achievement, higher earnings potential, and productive citizenship. These long-term benefits drive the need for child care policy with a focus on quality.

INTRODUCTION

Wisconsin's child care subsidy program for low-income families, Wisconsin Shares, is in the midst of a fundamental reform. For more than six years, state policymakers have debated whether the program should be used as an incentive for quality improvements in the child care marketplace. Now, the legislature has asked the state Department of Children and Families to create a five-year plan for the program to do just that. This policy reform, called the YoungStar initiative, coupled with extensive media coverage of fraud in the program, has focused the public's attention on the role of state government in the funding and regulation of child care.

Before the proper role of government can be defined, however, it is important to understand *how* policies implemented at the time of the landmark welfare reform legislation have impacted child care quality. In particular, to what extent have the state's policies governing the Shares program resulted in the general lack of high-quality child care across Wisconsin? Gaining insight into the consequences of yesterday's policy goals should be instructive to policymakers as they grapple with reforming the program, and may help to avoid unintended impacts from today's policy decisions.

This research builds on the Public Policy Forum's past three years of research exploring the economic benefits of high-quality early childhood education. High-quality early childhood care and education can result in economic benefits stemming from increased school readiness, reduced use of special education, reduced use of public assistance, and reduced criminal involvement, among other benefits (see sidebar). The Forum has published nine reports analyzing how much Southeast Wisconsin invests in quality; how parents, teachers and providers feel about the current system; the barriers to achieving high quality in the region; and options for funding system improvements. Our economic analysis also has revealed market failures in the Milwaukee region's child care system manifested by a lack of both supply and demand for the type of quality care that would best serve the region's economic interests.

This report explores how the state's policies with regard to child care subsidies may have contributed to this market failure. Specifically, it investigates how child care policies designed to further the goals of welfare reform impacted the creation of high quality early education environments, as well as the implications for changes now being considered and implemented.

The new YoungStar initiative is, in fact, an attempt to reverse the system's market failure by creating fiscal incentives for high-quality early care and education (see sidebar). With this report, we hope to inform key early stages of YoungStar's implementation by providing a deepened understanding of the impacts of previous policies. The focus is on the YoungStar plan as approved in the 2009-2011 biennial state budget, which differs in some ways from previous quality ratings and improvement initiatives debated by the legislature. This research rests on the assumption that, when attempting to fix a broken system, chances of success increase when one understands the roots of the system's failures.

What does high quality care look like? Why is it important?

Definitions of high-quality early care and education vary, but such care often features many of the following characteristics:

- Teachers with four-year college degrees in early childhood education; assistant teachers with two-year degrees.
- Teachers and assistant teachers who are well-compensated and have ongoing professional development opportunities (which results in low staff turnover).
- Smaller teacher-child ratios.
- For three- and four-year olds, the use of a professionally developed pre-kindergarten curriculum.
- Interventions with family units such as supportive home visits.
- Monitoring and site visits by regulatory or accrediting agencies.

A consistent body of research concludes that high-quality early childhood care and education produces broad economic benefits to children and society as a whole.

Longitudinal research has found that high-quality early childhood education tends to produce better educational outcomes. Children who are enrolled in high-quality centers are more likely to enter school ready to learn, and less likely to need special education, be held back a grade, or drop out. The benefits continue into adulthood and include lower reliance on social services, higher earned income, and lower criminal participation. The positive outcomes have far-reaching economic implications. Studies have produced return-on-investment estimates ranging from a $2 return on every dollar invested to a $17 return on every dollar invested.

For links to these and other research studies, see our research matrix at www.publicpolicyforum.org/Matrix.htm

What is the YoungStar initiative?

The YoungStar initiative is a five-star rating system for child care providers. With this program, Wisconsin joins more than 20 other states that have child care Quality Rating and Improvement Systems (QRIS). Currently in the early stages of implementation, YoungStar will rate provider quality, link Wisconsin Shares subsidy rates to quality, and provide parents information about quality as they choose providers. The quality rating scale is based on five factors: education, learning environment, business practices and the health and well-being of children in care.

The quality of providers will be assessed with a validated evaluation tool. Participation in YoungStar is mandatory for providers who wish to be recipients of subsidy dollars; providers serving non-subsidized children can participate voluntarily. Providers with three, four, or five stars will earn higher reimbursement rates, while providers at two stars will receive the base subsidy, currently set at the existing rate. Providers not in compliance with regulations will earn one star and will not be eligible for reimbursement. This tiered reimbursement is intended to create an incentive for providers to improve their quality.

The program design also includes training and technical assistance to help child care providers improve their quality and micro-grants for equipment purchases. The state plans to post the ratings of individual providers on a website for parents and will educate parents about the importance of choosing a high quality provider.

YoungStar is estimated to cost $65 million over six years, including $10 million during the initial launch. Approximately $1.5 million is to be used immediately for training and assistance to providers and $3 million for regulators to collect data and assign preliminary ratings to providers.

A BRIEF HISTORY OF WELFARE REFORM WITH RESPECT TO CHILD CARE

Today's child care subsidy program in Wisconsin results from welfare reform policies adopted in the early 1990s. In 1993, the state legislature adopted legislation requiring the Department of Health and Social Services to propose a replacement to the cash welfare aid given impoverished families by December 31, 1995. In addition, the law specified that the state's federally-funded Aid to Families with Dependent Children (AFDC) program would be repealed by January 1, 1999.[1]

A legislative working group on welfare reform held public hearings throughout the summer of 1994, but the administration's proposal was not released until August 1995. Many of those who testified at the public hearings were concerned about child care issues, particularly issues of access and affordability. At the time, Wisconsin had among the most stringent child care regulations in the country,[2] which may be one reason why quality of care was not addressed frequently at these hearings.

The 20-page proposal from Governor Tommy Thompson's administration in August 1995 named the AFDC replacement program "W-2—Wisconsin Works" and formed the basis of 1995 Assembly Bill 591, which was introduced in October of that year. The bill received five public hearings and was debated on the floors of both chambers of the general assembly throughout the fall and winter of 1995. On January 1, 1996, the administration began "Operation Transition," which included counseling new AFDC applicants on obtaining work rather than joining the welfare system. The W-2 program was not legislatively enabled, however, until the passage in March 1996 of 1995 Wisconsin Act 289. (A timeline of legislative actions is presented below in **Figure 1**.)

Child care subsidy policies received considerable attention during the public hearings and floor debates on the W-2 bill. In addition, the legislature had taken up a separate proposal regarding child care support during this same legislative session. 1995 Senate Bill 540 was the result of the work of the Joint Legislative Council's Special Committee on Child Care Economics. The committee met from June 1994 through June 1995. While it did not have any formal input into the administration's development of W-2, the committee did invite several members of the administration to brief it on the discussions and deliberations during the time the W-2 proposal was being formulated. The committee was chaired by Sen. Alberta Darling and Rep. Antonio Riley and charged with the following:

1) Determining demand, availability, and characteristics of child care providers and the child care delivery system;
2) Reviewing current policies on allocation of child care resources and regulation of child care providers; and
3) Devising means and incentives to increase the supply of high-quality child care, reduce demand for state support for child care, and retain skilled child care providers, within the limits of current public resources.[3]

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[1] 1993 Wisconsin Act 99.
[2] *Wisconsin State Journal,* "Working Mother Magazine Evaluates States for Child Care," Aug. 14, 1997.
[3] Wisconsin Joint Legislative Council, *Legislation on Child Care Economics*, Report No. 13, Feb. 15, 1996.

While most provisions in the Special Committee's bill focused on safety in child care facilities, the bill also stipulated that subsequent to the demise of AFDC, child care support should be made available to *all* low-income families that required subsidized care in order to be able to work, not just former AFDC recipients. The version of the bill signed by the governor did not include this eligibility provision, but it was later included in the administration's initial W-2 proposal and did, in fact, become a foundational policy goal of welfare reform in Wisconsin.

Paradoxically, Wisconsin's welfare reform proposal expanded eligibility for child care assistance by eliminating the entitlement to assistance. The federal government had defined child care support as an entitlement in 1988[4] (see sidebar below), meaning that working families receiving AFDC-funded cash assistance were entitled to receive a child care subsidy, with no regulation of the child care setting. Federal welfare reform, passed by Congress in 1996, created the Temporary Assistance for Needy Families (TANF) program and ended the federal entitlement to child care support, meaning states could now choose how to structure their child care subsidy programs and define eligibility for themselves. Because Wisconsin was working ahead of Congress on the issue, the state was operating under an assumption that it would either receive a federal waiver from the entitlement requirement or that federal reform would eliminate the entitlement. Wisconsin therefore became the first state to replace the federal entitlement to child care assistance for those on public assistance with a child care subsidy program aimed at improving access to child care for *all* low-income families, whether they also received other government benefits or not.

> Paradoxically, Wisconsin's welfare reform proposal expanded eligibility for child care assistance by eliminating the entitlement to assistance, becoming the first state to replace the federal entitlement to child care assistance with a program aimed at improving access to child care for *all* low-income families.

W-2 also included other child care policy goals, which will be analyzed in depth in this report. For example, W-2 prioritized parental choice by allowing parents to use their subsidy anywhere in the regulated child care market; incentivized the choice of low-cost care; eased regulations of child care providers in order to quickly expand the capacity of the child care market; and funded child care as a "work support" program rather than as an educational program.

Governor Thompson signed W-2 into law as 1995 Wisconsin Act 289 in April 1996. A little over a year later, the new child care subsidy program was running with full funding. By June 1997, the child care wait list had been eliminated. In September 1997, the state fully transitioned to W-2 by no longer accepting new AFDC enrollees and not enrolling any persons in TANF that were capable of work.

[4] *Family Support Act*, Public Law 100-485.

Federal Child Care Policy Timeline

Although most of the child care market is a private market, there is a long history of public involvement, through both regulation and financing. At the federal level, the public interest in child care arose with the New Deal and the creation of "emergency nursery schools" to serve as sources of jobs for teachers and nurses, and as institutions dedicated to healthy child development. Child care policy pre-dates welfare policy, as these nursery schools operated prior to the creation of what came to be known as AFDC. From the beginning of public child care policy discussions, the government's role in ensuring quality in child care settings was part of the discourse.

> *With the beginning of the second year, many of the units which fell far short of the standards for a good nursery school were closed; some new units have been opened and an effort has been made by the various states to keep those now in operation up to a high standard. Practically all of the states have a state supervisor trained for and experienced in nursery school work whose function it is to administer the emergency nursery schools of the state.*
> —Grace Langdon, "The Emergency Nursery School--A Community Agency" in *Opportunity: A Journal of Negro Life*, February 1935.

1933
Approximately 75,000 children enrolled in 1,900 emergency nursery schools established by the Works Progress Administration (WPA). The last WPA school closed in 1943.

1935
Congress passed the Social Security Act, including Aid to Dependent Children, the first incarnation of AFDC.

1940
Congress passed the Lanham Act, which provided federal grants and loans to public or private agencies for the operation of public works. A later administrative decree included child care facilities and programs in certain areas as eligible for these funds.

1942
The War Manpower Commission issued a statement articulating that employers should not set up barriers to maternal employment, and that hours and shifts should cause the least disruption in child rearing and family life. Furthermore, it stated that when needed, child care facilities under community auspices should be developed. Subsidies covered construction in addition to operating costs.

The $6 million that had been authorized in the WPA child care program was shifted to Lanham Act funds, which covered child care services so all mothers (not just those receiving "home relief") could be employed in wartime industry. Initial public outcry at the prospect of termin-

ating these programs after the war caused President Truman to request a $7 million appropriation to continue the child care programs through 1946. Funding ceased after 1946, and most states closed their programs.

The Children's Bureau created the first federal child care standards and recommended a staff-to-child ratio of one to 10.

1962
Title IV-A of the Social Security Act funded child care services for parents receiving Aid to Families with Dependent Children (AFDC). These funds allowed parents to participate in work and training programs.

1965
The Economic Opportunity Act created Head Start to provide a pre-kindergarten educational experience to children in poverty. The Act also provided grants to community action agencies for anti-poverty projects, including child care services.

1968
The government issued the Federal Interagency Day Care Regulations (FIDCR), which specified stringent staffing ratios and other requirements for child care programs receiving federal funds. In 1975, most states were found not to be meeting these requirements.

1975
The federal government expanded child care eligibility to include low-income families not receiving AFDC. States had broad discretion to fund an array of social services.

1980
The federal government stopped regulating child care altogether, leaving this responsibility to the states.

1988
The AFDC Child Care Guarantee required states to guarantee child care for all AFDC parents who were working or in education and training programs, beginning October 1990.

1990
Congress created the Child Care and Development Block Grant (CCDBG) to improve the quality, affordability and accessibility of child care for low-income parents who were working or in some work-related education or activity. The block grant required states to use 75% of their CCDBG funds for subsidies to families and 25% for early childhood development, school age programs, and quality improvement projects. No other regulatory requirements were included.

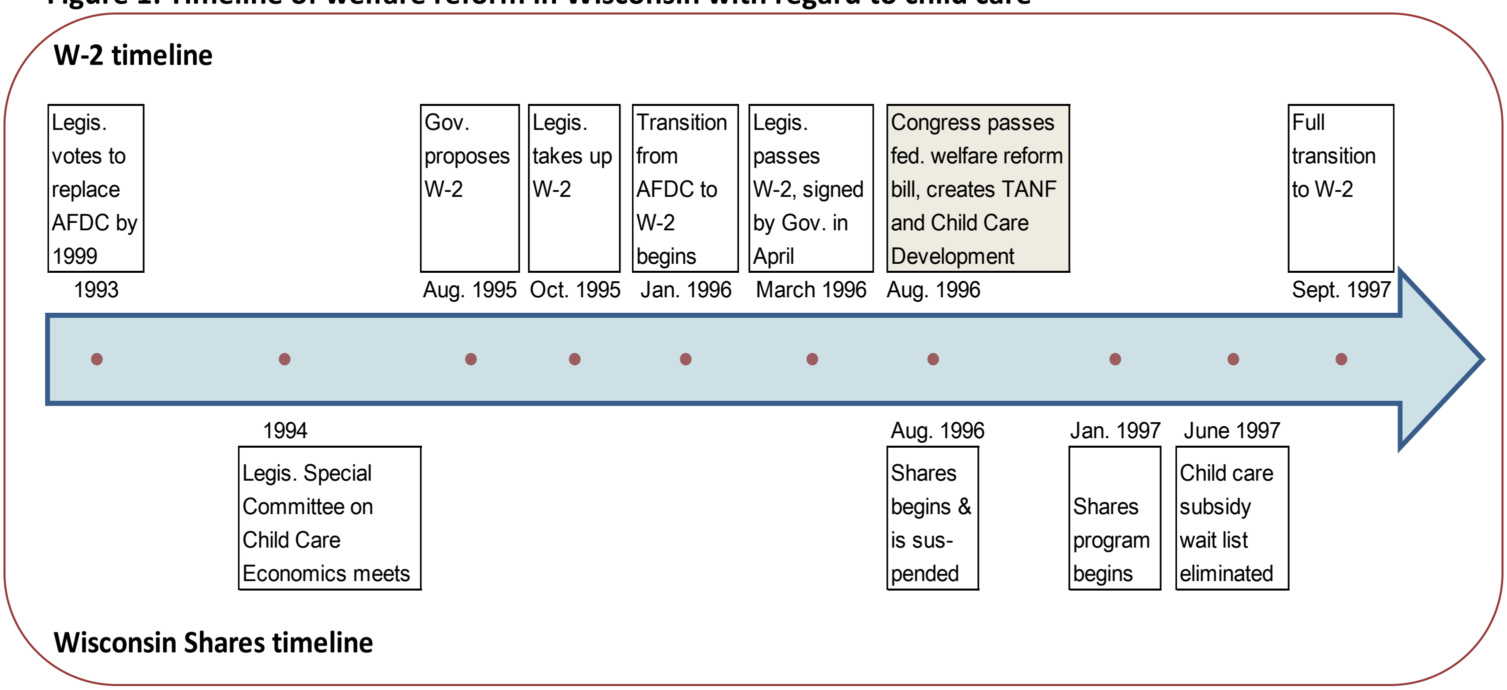
1994
The reauthorization of Head Start created a new initiative to extend Head Start to infants, toddlers, and pregnant women and their families, called Early Head Start.

1995
The Child Care Bureau was established in the Administration for Children and Families of the Department of Health and Human Services in January 1995, to administer federal child care programs to states, territories and tribes for low-income children and families.

1996
The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 eliminated all federal public assistance entitlements for individuals and replaced them with block grants to states. The law also repealed all federal child care guarantee provisions for public assistance recipients. The child care entitlements under Title IV-A (AFDC, Transitional, and At-Risk child care) were consolidated with the Child Care and Development Block Grant to create a Child Care and Development Fund (CCDF). The CCDF is administered as a block grant to states. Although the law contained basic requirements, most decisions about the use of funds were left to the states.

Timeline excerpted from:
A Century of Caring for Children: A history of federal and state child care legislation and programs for low income children in Illinois. Illinois Facilities Fund, January 2000.

Figure 1: Timeline of welfare reform in Wisconsin with regard to child care



WISCONSIN SHARES, BY THE NUMBERS

As welfare reform was phased in and tens of thousands of Wisconsin parents joined the job market, both the supply and demand sides of the child care market responded. This section provides a sense of the scope of change in the market that resulted from implementation of W-2. It is important to bear in mind that the numbers presented here both resulted from and informed the policy debates and decisions discussed in the next section. Milwaukee County, which was home to more AFDC recipients than any other county in the state, is the focus of the data trends presented here.

Prior to implementation of W-2, AFDC caseloads in Milwaukee County were relatively stable at 36,000 to 37,500 families (**Table 1**). The number of families receiving cash assistance under W-2 has been much smaller, although enrollment has ticked up recently (**Table 2**). (Caseload data during the time of transition, 1997-1999, are not available in a comparable form.)

Table 1. Milwaukee County Total AFDC Cases

Year	Cases
1991	36,855
1992	37,508
1993	37,461
1994	37,100
1995	36,155
1996	31,086

Includes employed, unemployed, SSI, and kinship foster care
Source: Wisconsin Dept. of Children and Families

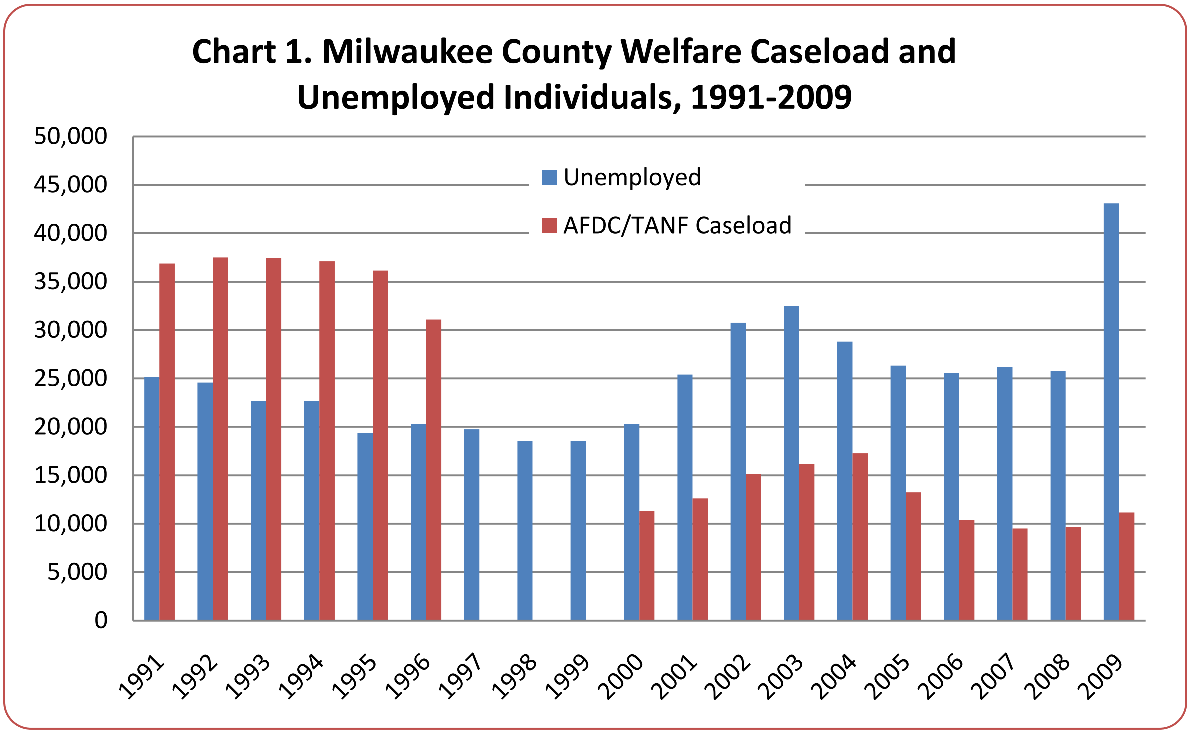
Table 2. Milwaukee County W-2 Unduplicated Payment Placements

Year	Cases
2000	11,317
2001	12,606
2002	15,121
2003	16,134
2004	17,272
2005	13,243
2006	10,377
2007	9,502
2008	9,660
2009	11,157

Excludes those who may have received W-2 services such as case management, but did not receive a cash payment.
Source: Wisconsin Dept. of Children and Families

The huge increase in job-seeking former AFDC recipients generated by the full implementation of W-2 can be seen in the unemployment figures during this time. Federal regulations define only those jobless individuals who are actively seeking a job as unemployed; prior to 1996, jobless welfare recipients were not necessarily reflected in unemployment counts. **Chart 1** shows annual caseload figures for AFDC/TANF in Milwaukee County, as compared to the number of unemployed job seekers.[5] During the AFDC years, the AFDC caseload exceeded the number of unemployed individuals. The opposite occurred in the TANF years – the number of unemployed individuals exceeds the welfare caseload, due to both a decline in welfare caseload and a rise in unemployment.

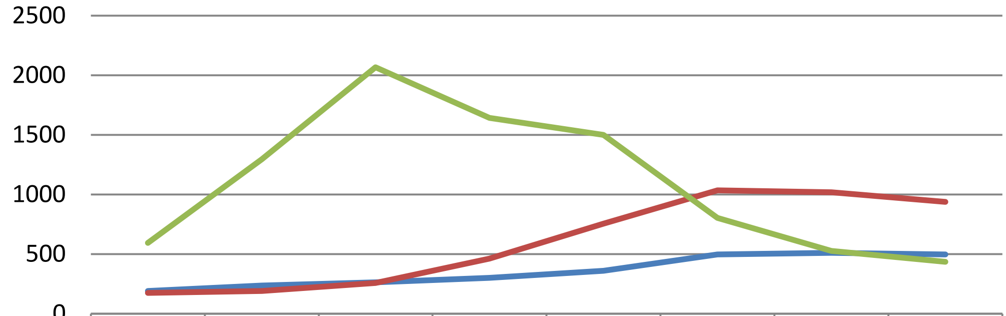
[5] AFDC caseload figures must be compared with caseload totals from the W-2 years with caution, because W-2 caseload counts excluded SSI (Social Security Disability) and kinship foster care cases, which were moved to a different program.



Caseload data for 1997-1999 are not available in this format, which is the average monthly caseload. Unemployed individuals refers to those who are involuntarily unemployed – these individuals are able to work and are actively seeking work, but are unable to find a job.
AFDC and TANF Sources: Wisconsin Dept. of Children and Families, Unemployment Source: U.S. Bureau of Labor Statistics

The result is that post-1996 Milwaukee County had a vastly increased number of people looking for work. As will be discussed in the next section, the Wisconsin Shares program was expected not only to help low-income parents gain access to child care, but also, by doing so, to serve as a source of employment for many of those job seekers. Indeed, the total number of childcare providers in Milwaukee County nearly tripled between 1994 and 1998, as shown in **Chart 2**. The variation in the number of providers of each type is directly related to policy choices made by the state during the creation and implementation of W-2 and will be analyzed in depth in later sections of the report.

Chart 2. Number of Milw. County Child Care Providers by Type, Select Years 1994-2010



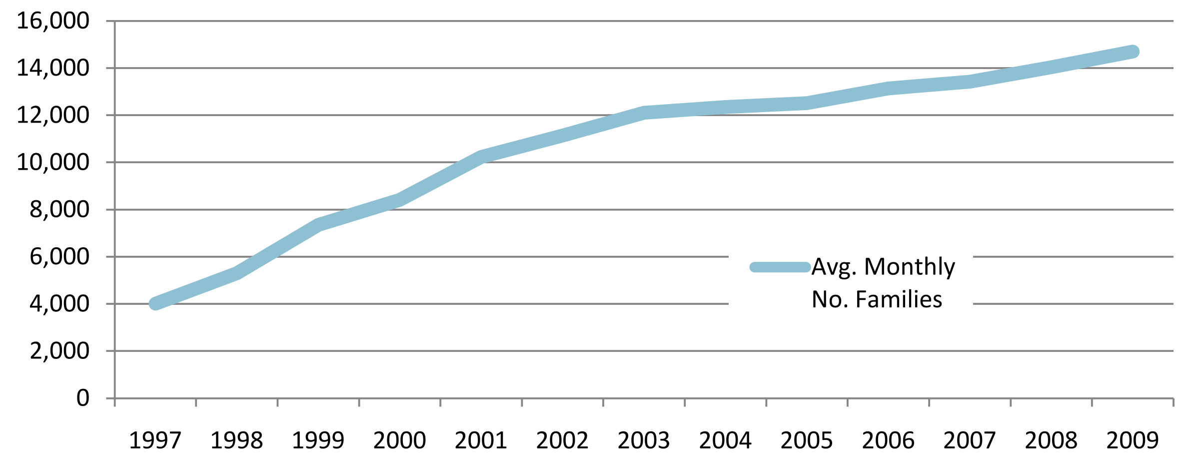
	1994	1996	1998	2000	2002	2006	2008	2010
Licensed Group	192	237	263	302	359	498	512	497
Licensed Family	175	190	258	463	756	1,034	1,019	939
Certified Family	595	1297	2069	1642	1500	804	528	436

2010 is February snapshot data only. Data unavailable for 2004.
1989-2002 Source: Planning Council for Health and Human Services. 2006-2008 Source: Wisconsin Dept. of Children and Families. 2010 Source: Wisconsin Dept. of Children and Families.

The need for child care providers was driven by W-2's requirement that parents who were able to work must seek work. Specific eligibility requirements will be discussed later in the report, but W-2 and the creation of Wisconsin Shares resulted in many more families being eligible for a child care subsidy. **Chart 3** illustrates the average monthly number of Milwaukee County families receiving Wisconsin Shares subsidies, which rose dramatically in the immediate years after AFDC ended. **Table 3** shows the data from which **Chart 3** is derived, as well as the number of Milwaukee County children receiving child care subsidies annually since 1997. The recent decline in Milwaukee County families receiving subsidies is likely due to both higher unemployment during the recession and a crack-down on fraud in the system.

These numbers depict a welfare system and job market in great flux. Policymakers' desire to see low-income families gain employment, while minimizing their need for public benefits, guided the Shares program and its implementation, taking precedence over issues such as quality, child development, and school readiness. The next section discusses the four keystone goals of welfare reform as related to child care.

Chart 3. Milwaukee County Families on WI Shares Caseload, 1997-2009



Annual total of average monthly caseloads.
Source: Wisconsin Dept. of Children and Families

Table 3. Milwaukee County Families and Children Receiving Child Care Subsidies 1997-2010

	Average Monthly Number of Families	Average Monthly Number of Children
1997	4,016	7,131
1998	5,303	9,735
1999	7,352	13,595
2000	8,404	16,057
2001	10,229	19,496
2002	11,144	21,318
2003	12,109	23,171
2004	12,346	23,601
2005	12,510	24,121
2006	13,141	25,651
2007	13,420	26,694
2008	14,040	28,318
2009	14,705	29,516
2010*	13,783	26,291

*Average of Jan-Oct caseloads.

Source: Wisconsin Dept. of Children and Families

KEYSTONE WELFARE REFORM POLICY GOALS RELATED TO CHILD CARE

As noted in the introduction, the purpose of this report is to investigate potential linkages between the primarily low-quality child care market in Wisconsin today and the state's original welfare reform policies. To determine policymakers' intent, we analyzed relevant legislative and administrative documents; agendas, minutes, and transcripts of legislative committee meetings and public hearings; and contemporaneous news reports. These records demonstrate that the policy goals of welfare reform and the subsidization of child care were vigorously debated among policymakers and the public. The debate resulted in explicit goals that guided policymaking as the legislation and regulations were drafted and the new program was implemented.

We identify the four primary goals of W-2 with respect to child care as: 1) a focus on work, treating child care as a work support, and not as a means of educating children; 2) prioritizing parental choice of child care provider; 3) a quick expansion of the supply of child care so as to fast-track implementation of welfare reform and create jobs; and 4) prioritizing the affordability of child care, both for families and the state.

In this section, we briefly define each policy goal and consider how each might be related to the quality of child care. The following sections will discuss in detail the specific policy proposals that served these goals.

Policy goal 1: Work support, not education

At the time in which the Thompson administration was developing the welfare reform plan, the importance of child care subsidies as a necessary ingredient for its success was clearly understood. That understanding, however, was based on two very different rationales. One was political—the legislature had explicitly expressed a preference for the expansion of eligibility for child care subsidies to *all* low-income families, not just current or former AFDC recipients. Thus, eligibility expansion was deemed necessary to gain broad legislative support for W-2.

> *"The administration views child care as a means to family financial independence rather than a means of educating children."*

The second was policy-oriented. The welfare reform effort's "focus on work" acknowledged that access to affordable child care was an important work support. Without affordable child care, AFDC recipients would not be able to quickly enter the workforce. This focus on work was priority number one for the administration.[6]

There was some concern among state officials about the "risk" of treating child care only as a work support, and of not considering its role in the education, health, and welfare of children.[7] Child and

[6] Laurie Miller, "Wisconsin and Minnesota: Approaches to welfare reform and child care," Child Care Action Campaign, *Issue Brief* No. 3, 1996.

family advocates also were concerned about an "artificial distinction between care and education" and shared their concerns with the legislature and the administration.[8] In the end, however, the attitude that prevailed is best described by the administration's point man on welfare reform, Jason Turner, who stated, "The administration views child care as a means to family financial independence rather than a means of educating children."[9]

Because of this lack of emphasis on child care's role in early childhood education and school readiness, incentives for higher-quality care were not a focus of the subsidy program.

Policy goal 2: Parental choice

The administration also was very clear from W-2's inception that the state would not be in the business of providing child care by contracting with specific child care providers or centers, as had been the model in some other states, and as was the existing subsidy model in Milwaukee County. Allowing parents free choice within the private child care marketplace thus was another top priority for the administration.[10]

> *"We do a disservice to moms … by saying these moms don't care about quality child care. We've gone too far in treating the AFDC population as victims unable to make good choices."*

In addition, expanding eligibility for child care subsidies was seen as a way to maintain and *enhance* parental choice. The increase in state-subsidized families would create more demand; providers were expected to respond by becoming more accessible to low-income families.

There was virtually no debate on the desirability of parental choice, likely for two reasons. First, with few exceptions, Wisconsin did not have a history of contracting with child care providers and, consequently, no such statewide infrastructure existed. And second, at the time, Wisconsin was seen as having a robust regulatory system that resulted in a high-quality child care market.[11] There is nothing in the legislative records or news reporting at the time to suggest any advocacy for the state to contract with child care providers to serve subsidy recipients in a closed market.

Parental choice also was thought to be a way to ensure child care would be of sufficient quality, as parents would obviously want to choose the best care for their children. As one state official put it, "We do a disservice to moms … by saying these moms don't care about quality child care. We've gone too far in treating the AFDC population as victims unable to make good choices."[12]

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[7] Jim McCoy, Department of Public Instruction, testimony to Special Committee on Child Care Economics, November 1994.
[8] Tammy Baldwin, state legislator, testimony to Special Committee on Child Care Economics, February 1995.
[9] Jason Turner, Department of Health and Social Services, testimony to Special Committee on Child Care Economics, December 1994.
[10] Miller, *supra*.
[11] *Working Mother Magazine*, "Wisconsin among top ten best states for child care," June 1996.
[12] Jean Rogers, Dept. Health and Human Services, quoted in *Wisconsin State Journal*, Feb. 19, 1996.

Policy goal 3: Fast-track implementation and job creation

The administration was very candid about the need for expansion of the child care subsidy, and the child care market, to happen quickly. In fact, the plan called for the expanded subsidy to be one of the first components of W-2 to be implemented, even before the state stopped new enrollments in AFDC.

The success of W-2 was to hinge on the state's ability to rapidly get people into employment. In order to do so, two things had to fall into place: 1) barriers to employment, such as lack of child care, had to be removed; and 2) jobs had to be available. Fast-track implementation of an expanded child care subsidy could help satisfy both those needs—the child care subsidy would create more available workers, and a growing demand for child care would create jobs in the child care industry. As Governor Thompson's press secretary noted, "By requiring mothers to work, W-2 will increase the need for child care, thus increasing opportunities for providers."[13]

"By requiring mothers to work, W-2 will increase the need for child care, thus increasing opportunities for providers."

The need for very quick job creation, however, meant that the new jobs would be mostly entry-level and would not require advanced skills such as those necessary to provide higher-quality care.

Policy goal 4: Affordable care

Finally, if the child care subsidy was going to significantly expand the child care market, it had to truly improve low-income families' access to the market by making most care affordable. This could be achieved by a generous subsidy, but a more generous subsidy would have meant serving fewer families, which conflicted with the goal of reaching all low-income families. Thus, the state had an interest in seeing the lower-priced end of the child care market expand—if W-2 were to successfully end welfare, families would need to utilize lower-cost child care.

"More care at a lower rate will reduce the state's costs."

A UW-Madison economist testified at the time that if the subsidy were so low that providers could not recoup their costs when serving subsidized families, they would not accept these families into their centers and there would not be enough capacity to meet the needs of all newly-employed parents. He said that in the absence of a higher subsidy, "more care at a lower rate will reduce the state's costs" both in terms of the subsidy program and W-2's overall cost.[14]

The administration characterized this outcome as "cost control by making hard trade-offs," indicating expansion of the low-end of the market was not optimal due to the implications for quality, but was necessary for welfare reform to work.[15]

[13] *Milwaukee Journal Sentinel*, May 28, 1996.
[14] James Walker, UW-Madison, testimony to Special Committee on Child Care Economics, January 1995.

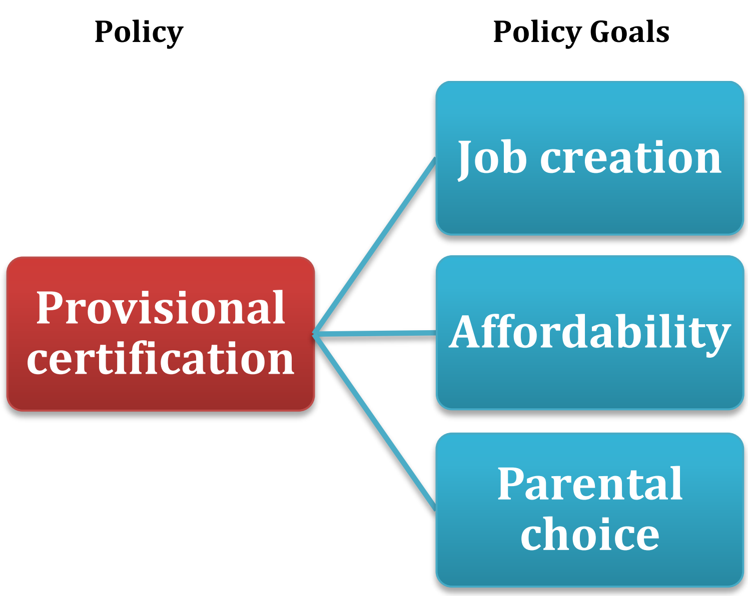
WISCONSIN SHARES POLICIES SERVING W-2 GOALS

To further the key child care-related goals associated with welfare reform, four specific policies were included in the original design of the Wisconsin Shares subsidy program: 1) relaxing provider regulations to ease the entry of new providers into the market; 2) sharing costs with parents via co-payments to keep government's costs low; 3) serving all low-income families, not just former AFDC recipients; and 4) ensuring equal access to the private market by subsidy recipients.

This section discusses the impact each of these original policies has had on child care quality. In addition, it considers whether the impacts on quality were unintended consequences or known risks. Finally, this section highlights the implications for today's policymakers as they attempt to implement a new policy goal for the child care subsidy program—high-quality early childhood education—and reform a system that evolved under a very different policy goal—building the supply of child care for working families.

Easing entry to the market: provisionally certified care

W-2's architects created a new class of minimally regulated child care providers, which had obvious implications for child care quality. At the time, however, policymakers were less concerned about quality than about creating jobs, providing parents with choices, and keeping costs in check. In the end, two of these three objectives were achieved: jobs were created and parents enjoyed choices among providers. But the program quickly became very expensive, resulting in a program with both high costs and lower quality. Those seeking to implement the new YoungStar program now must determine whether policies aimed at creating and sustaining child care jobs and providing robust consumer choice—including the continued existence of provisionally certified providers—are still relevant and consistent with the quality-focused objectives of YoungStar.



[15] Miller, *supra*.

The new class of child care providers was known as “provisionally certified” (see sidebar). Although the name of this classification implied otherwise, a memo from the Bureau of Welfare during the bill drafting process indicated that these providers were not necessarily expected to move up into a more regulated class of care: “Currently the [statutory] language regarding child care certification describes provisional certification as a temporary category, typically pending the completion of the required training. The new category is intended to be permanent—for those electing to remain so.”[16] The reformers’ idea was to “allow responsible home child care providers easier entry into the W-2 provider system through the creation of a new, less restrictive category.”[17] This “less formal category of certification” was thus created “in an effort to increase the supply of informal and part-time providers.”[18]

Requirements for Regulated Child Care Providers

Type of Provider	Provider Training	Continuing Education	Maximum Provider/Child Ratio
Licensed group	Post-secondary education courses and 80 working days of experience as a full-time assistant child care teacher, or 120 working days as a half-time assistant child care teacher	25 hours per year if provider works more than 20 hours per week; 15 hours per year if provider works 20 hours per week or less	Varies by age of child—1:4 for infants to 1:18 for children 6 years and older. Maximum number of children per group varies by age of children
Licensed family	40 hours or 3 credits, plus 10 additional hours if caring for infants/toddlers	15 hours per year	1:8, depending on age of children; maximum of 8
Regularly certified	15 hours	Not required by State; counties and tribes may require up to 5 hours per year	1:6, depending on age of children; maximum of 6
Provisionally certified	None	None	1:6, depending on age of children; maximum of 6

Source: Legislative Audit Bureau
Note: all providers must have safety training.

[16] Memo from the Bureau of Welfare Initiatives to the Legislative Reference Bureau commenting on an early draft of 1995 AB 591, October 10, 1995.
[17] ”W-2: Wisconsin Works,” pamphlet by administration of Gov. Tommy Thompson, August 3, 1995.
[18] Ibid.

While allowing new providers to quickly and easily become part of the child care market obviously would help facilitate the fast-track implementation of the reform, policymakers also seemed to be relying on growth in this class of provider to help keep costs low, for parents as well as the state. The choice of a provisionally certified provider was subsidized at a lower rate than a regularly certified provider.[19] The lower rate was justified because of the lower regulatory requirements, but also because most were anticipated to be relatives of the children in their care.

The opportunity to receive a subsidy for this type of informal care was thought to benefit low-income families that would not be a part of a formal child care market, either due to personal preference or perhaps due to transportation, language, or other barriers. Thus, provisionally certified providers also helped satisfy the administration's prioritization of parental choice.[20]

Perhaps the best summary of the various ways in which provisional certification would meet the policy goals of the administration came from the editorial board of the *Milwaukee Journal Sentinel*: "State officials see the plan as offering parents cheaper day care and increasing the supply by placing fewer restrictions on providers. Another plus, it adds jobs to the labor pool for welfare parents who must now participate in the W-2 program."[21]

The plan did come under fire from child advocates and others,[22] who feared provisional care would negatively impact child care quality, decrease wages among child care workers, and increase the risk of child abuse.[23] An analysis by the *Wisconsin State Journal* showed provisionally certified providers in Dane County would earn just $1.50 per hour per child if they were reimbursed at half the rate of certified providers. The implications for quality were clear: only low-skilled providers would be willing to accept such low pay.[24]

Others questioned the need for provisionally certified care given the sufficiency of slots in regulated care in Milwaukee County, but the generally held view was that more slots would be needed once W-2 went into full effect.[25] Provisional certification was touted by the administration as a "method to increase the supply" with family-based care.[26]

Meanwhile, those advocates who argued that increasing capacity via provisionally certified providers would result in "all these little day-care centers popping up with people being paid to sit and do what

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[19] Legislative Reference Bureau, "Wisconsin Works (W-2): A Brief Description," *Brief* 96-1, May 1996.
[20] In Milwaukee County, the elimination of contracted providers also expanded parental choice.
[21] Mary Beth Murphy, "Welfare plan's child care provision blasted," *Milwaukee Journal Sentinel,* Aug. 26, 1995.
[22] For example, the League of Women Voters went on record in opposition to "a new classification of child care with less regulation and less training."
[23] Anne Statham & Pam Fendt, *W-2: An Analysis of Feasibility and Impact*, Institute for Wisconsin's Future, October 1995
[24] *Wisconsin State Journal*. Aug. 4, 1995.
[25] The Wisconsin Council on Children and Families estimated that over 30,000 children under age 5 in Milwaukee County would need child care if their mothers were to leave AFDC and enter the workforce, requiring a 136% increase in child care capacity in the county. Statham & Fendt, *supra*, 1995.
[26] Jason Turner, Department of Health and Social Services, testimony to Special Committee on Child Care Economics, December 1994.

they normally do around the house"[27] were challenged to provide a solution to the capacity problem. Said Rep. Robert Jauch, "W-2 is going to be implemented and we're going to have a crisis for families . . . I think the burden is on the advocates to now come up with their alternative to explain how . . . this state is going to provide more day care slots."[28]

In the end, provisional certification was an important ingredient in the quick implementation of W-2 and allowed many former AFDC recipients to take new jobs, including jobs as child care providers. In fact, the growth in provisionally certified child care was faster than the growth of every other type of child care provider in the initial year of the program.

Provisionally certified providers did not, however, become a permanent source of affordable care. **Table 4** shows that the rapid build-up of provisionally certified providers in Milwaukee County was fleeting, and that the number of such providers dropped considerably over the years. The greater reimbursements for certified care presumably provided an incentive for provisionally certified providers to become certified.[29]

Table 4. Provisionally Certified Milwaukee County Family Child Care Providers

	1996	1997	1998	2001	2006	2007	2008	2010
Providers	1136	634	350	176	141	148	100	120

Source: University of Wisconsin-Milwaukee Employment and Training Institute

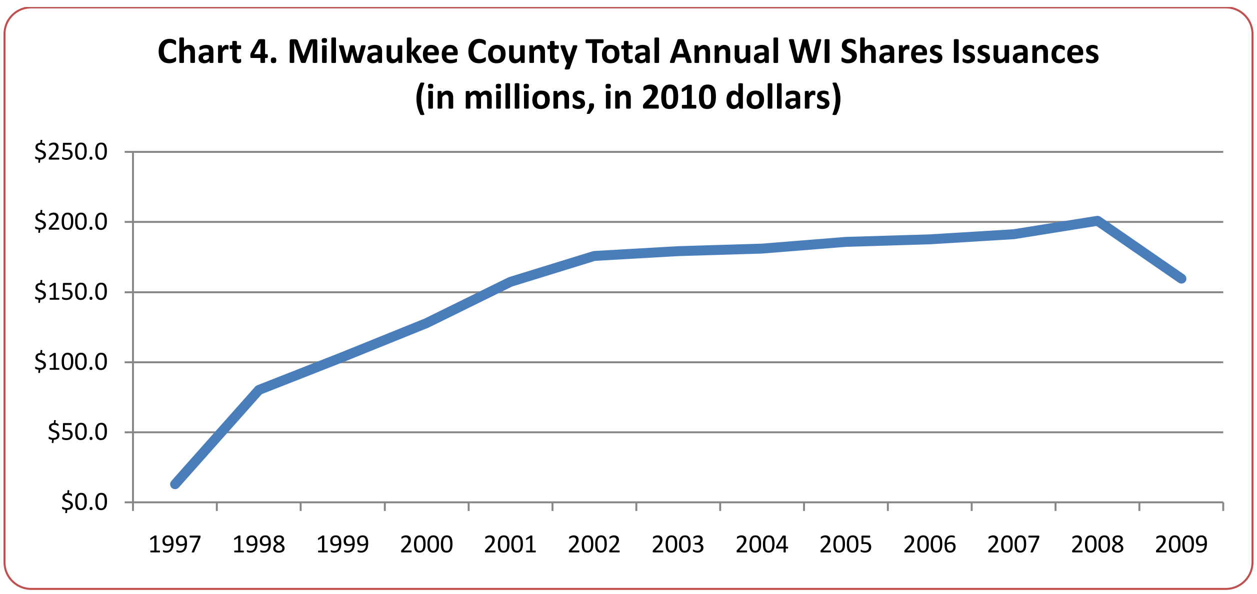
The ironic consequence was that provisionally certified providers – because of their dwindling numbers – may not have had the widespread negative impact on child care quality that many feared, but they also did not help to keep program costs affordable. **Table 5** and **Chart 4** show the increased spending on child care subsidies in Milwaukee County since 1997. The large increase in per-child spending from 1997 to 1998 is a reflection of the decrease in the low-cost provisionally certified providers, in favor of the higher-cost certified and licensed providers. The total issuances for the county have increased most years, only showing a decrease in 2009 (which may be related to high unemployment rates and/or crackdowns on fraud). The relative stability of the per-child and per-family figures suggests that the main force driving Wisconsin Shares spending was the rising number of program participants.

[27] Kim Strozier, Carter Child Development Center, Milwaukee, quoted in the *Wisconsin State Journal,* Feb. 19, 1996.
[28] Mary Zahn, "Child care advocates oppose plan," quoting Rep. Robert Jauch (Democrat) of Poplar, *Milwaukee Journal Sentinel*, July 17, 1997.
[29] The decline is also due in part to the change from reimbursing the parents for child care expenses to providing direct payments to providers, making informal care less attractive to parents.

Table 5. Wisconsin Shares Spending in Milwaukee County 1997-2009

	Monthly Per-Child Payment Averages	Annual Per-Child Payment Averages	Annual Per-Family Payment Averages	Total Annual Milw. Co. Issuances (in millions)
1997	$605.62	$1,816.83	$3,226.05	$13.0
1998	$685.65	$8,238.26	$15,123.42	$80.2
1999	$638.74	$7,634.47	$14,117.35	$103.8
2000	$661.85	$7,966.99	$15,222.03	$127.9
2001	$670.38	$8,066.14	$15,373.68	$157.3
2002	$685.11	$8,244.98	$15,772.30	$175.8
2003	$643.33	$7,733.31	$14,797.97	$179.2
2004	$638.44	$7,673.58	$14,669.07	$181.1
2005	$640.83	$7,702.42	$14,851.33	$185.8
2006	$607.82	$7,313.14	$14,275.13	$187.6
2007	$595.86	$7,166.19	$14,254.42	$191.3
2008	$590.24	$7,090.92	$14,302.03	$200.8
2009	$599.56	$5,405.19	$10,849.35	$159.6

Source: Wisconsin Dept. of Children and Families.



Source: Wisconsin Dept. of Children and Families.

The move from provisional certification to regular certification likely had some associated improvements in quality for those providers as they obtained the required training in child development. However, one study found that few provisionally certified providers went on to become *licensed* providers, who were required to have more training, operated under more regulations, and received an even higher reimbursement rate: "Few provisional providers moved to the licensed class of family or group providers. Of the 1,550 provisional providers who received day care payments in the 1996-1999 period, only 36 (or 2%) had attained licensed provider status by 1999."[30]

[30] John Pawasarat & Lois Quinn, *Impact of Welfare Reform on Child Care Subsidies in Milwaukee County: 1996-1999 (Part Three)*, University of Wisconsin-Milwaukee Employment and Training Institute, October 1999.

Therefore, while provisional certification was essential to meet the job-creation goal of welfare reform, the trade-off in quality for affordability did not last. Meanwhile, quality has continued to suffer; the shift of provisionally certified providers to a slightly more regulated class still lacked sufficient emphasis and controls on educational quality.

Implications for YoungStar

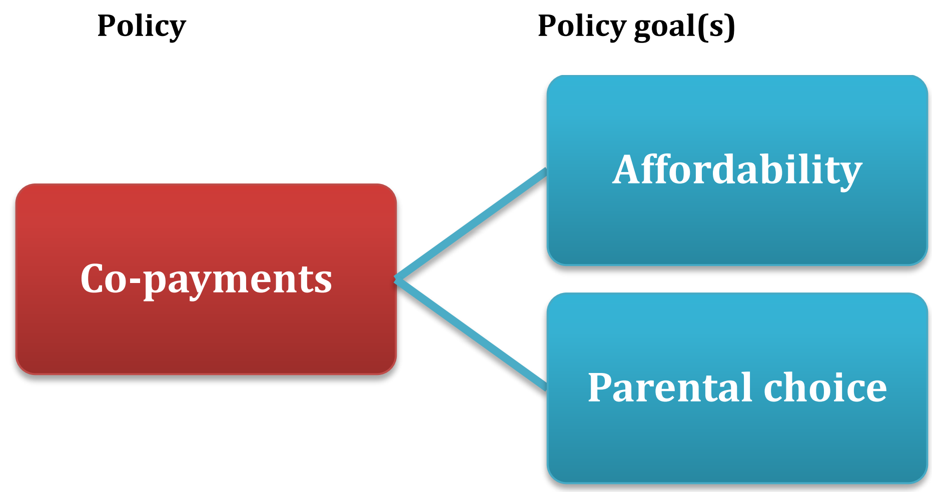
YoungStar would regulate provisionally certified providers as they are now: minimally. While it is believed that most of the 300 provisionally certified providers in the state (120 of whom are in Milwaukee County) are caring for relatives, more information about these providers is needed to help state policymakers determine whether continuing to allow for this classification of provider is appropriate, given YoungStar's focus on quality improvement.

In light of the seemingly minor impact the provisionally certified provider classification had on program costs, it would appear logical that if many of these providers are caring for non-relatives, the quality improvement focus of YoungStar might dictate that there no longer be a minimally regulated class of providers eligible for state reimbursement. This may require establishing a timeframe in which these providers must obtain training in order to earn regular certification or licensure, and/or committing resources to providing the technical assistance necessary for them to become part of the fully regulated market.

Those seeking to implement YoungStar must determine whether policies aimed at creating and sustaining child care jobs and providing robust consumer choice – including the continued existence of provisionally certified providers – are still relevant and consistent with the quality-focused objectives of YoungStar.

Sharing costs with parents: co-payments

By originally basing parents' weekly co-payments on the cost of care, rather than on household income, the architects of W-2 hoped to keep a lid on child care subsidy program costs by creating an incentive for parents to use lower-cost care. Then, after strong concerns were voiced about general affordability—as well as the notion of pricing low-income parents out of the high-quality child care market that might benefit their children the most—a new co-payment system based on household income was implemented. While that approach still was seen as an important mechanism for controlling program costs, cost savings were limited by providers' reluctance to collect the co-payments, and regulators' failure to rigorously enforce the policy. The issues associated with aggressive enforcement of co-payments remain in place today, calling into question how such enforcement can be achieved without contradicting the goals of YoungStar.



The original plan to link co-payments to cost anticipated keeping the state's costs low in two ways. First, the cost burden of higher-quality care would be shared with parents. Second, parents would have an incentive to choose affordable care. As explained in the administration's original welfare reform proposal:

> *The required co-pays will be based on a percentage of child care costs, rather than the agency paying everything above a set parent co-pay amount. This will have the effect of assuring that in selecting child care, families are sensitive to price differences, managing their options so as to choose a plan within their budget.*[31]

Under the child care subsidy program that existed prior to welfare reform, only those families earning more than 50% of the state's median income had a co-payment, which was based on household income. Conversely, under Wisconsin Shares, *all* families were responsible for a co-payment, which was to be based on the cost of child care, as well as family income.[32] The drafting instructions for the W-2 bill specified that families earning up to 75% of the federal poverty level would pay 10% of their weekly child care costs, with the co-payment increasing by a percentage point with every 1% increase in income relative to the poverty level.[33] This was estimated to result in families choosing the most expensive care paying up to 46% of their gross income on child care.[34]

This co-payment plan quickly came under fire. The Special Committee on Child Care Economics had recommended that affordable child care should mean that families spend no more than 10% of their

[31] Thompson administration pamphlet, *supra*, August 1995.
[32] Legislative Reference Bureau, *supra*, May 1996.
[33] 1995 Wisconsin Act 289 Drafting Instructions, October 1995, page 18.
[34] Judith Havemann, "Wisconsin moves to cover welfare's daycare costs," *Washington Post,* Dec. 13, 1996.

income on child care.[35] Accordingly, an outcry came from parents, many of whom previously had not been responsible for co-payments.[36]

Advocacy groups also objected,[37] with some arguing that high co-payments would *reduce* access to quality care, as parents would have an incentive to choose cheap care over quality care.[38] Many advocates went a step further and argued that higher co-payments would lead quality providers to reject low-income children out of fear that their families would not make the payments. They predicted the W-2 co-payment schedule would "cause the collapse of the network of child care centers in Wisconsin."[39]

Because of the opposition, the plan was modified several times and eventually amended by the legislature to reduce the co-payments to 7.5% of cost of services for families at or below 75% of poverty, and to 10% for families at 95% of poverty.[40] "We've heard people's concerns and we're doing as much as we can to address them," said the chair of the senate's welfare reform committee at the time.[41] The new co-pay schedule maximized cost sharing to no more than 16% of gross income for any family.[42]

Some kind of cost-based co-payment plan that would make parents sensitive to price was deemed necessary to keep the program's costs down, according to the administration.[43] However, the cost-based co-payments generated so much opposition among parents and providers, it was unable to contain costs to the extent hoped. A week before the Shares program implementation began, the governor committed another $25 million in state funds to the subsidy program in response to concerns about the effect of the co-payments on child care supply.[44] Then, within one day of program implementation, the governor determined the program should be suspended while a new Child Care Working Group was appointed to review the cost-based co-payment plan.[45]

When the program was finally fully implemented in 1997, a new and very different co-payment plan, based on family income, was included. The new plan did retain one element of the original plan:

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[35] The definition of "affordable child care" would likely have been subject to debate under nearly any scenario proposed by the administration, as the governor had vetoed the provision requiring welfare reform to "assure affordable child care to low income families" when he signed 1993 Act 99, the legislation directing him to create a replacement for AFDC.

[36] Havemann*, supra,* Dec. 13, 1996.

[37] For instance, both the League of Women Voters and the Policy Group on Welfare Reform issued statements in opposition to high co-payments.

[38] Statham & Fendt, *supra*, 1995.

[39] John Nichols, "Tommy retreats on W-2 daycare," *Capitol Times,* Aug. 3, 1996.

[40] Ibid. Eligibility remained capped at 165% of poverty.

[41] Ibid.

[42] Legislative Reference Bureau, "W-2 modifications," *Brief* 99-13, December 1999. See also, Jennifer Ehrle et al., "Recent changes in Wisconsin welfare and work, child care, and child welfare systems," *State Update* no. 8, Urban Institute, Sept. 1, 2001. The current schedule is structured so no family's co-payment exceeds 12.5% of gross income. See Legislative Fiscal Bureau, "Wisconsin Works and other economic support programs," *Information Paper* 46, January 2009.

[43] Miller, *supra*.

[44] Joel Dresang, "Thompson unveils program to promote child care," *Milwaukee Journal Sentinel*, July 25, 1996.

[45] Nichols, *supra*, Aug. 3, 1996.

parents choosing licensed child care had a higher co-payment than those choosing certified care. The co-payment plan, therefore, continued to provide an incentive for parents to seek lower-cost care. However, in 1999, a new federal law prohibited states from charging differential co-payments based on the type of child care. Since that time, Wisconsin Shares co-payment schedules have been based solely on family size, family gross income, and the number of children in child care.

State officials also failed to implement the intended co-payment policy in another way. Co-payments have not resulted in a true sharing of costs between parents and the state, because the state has left the collection of co-payments to the providers, many of whom choose not to collect.

Early research found that "in many cases" in Milwaukee County, the provider's proceeds from the subsidy program exceeded the revenues received from non-subsidized clients.[46] Consequently, many Milwaukee County providers were able to comfortably avoid collecting co-payments from parents, as the subsidy payments exceed their per-child costs.[47] In 2001, the Legislative Audit Bureau confirmed this earlier research and found that many providers did not attempt to collect co-payments. In fact, the Bureau found that about 15% of licensed providers and 56% of certified providers reported not always attempting to collect co-payments.

The audit also found that the primary reason for not collecting was a belief that the parents could not afford to make the co-payments and would be forced to remove their children. Other reasons included "the state's reimbursement being high enough to cover all of [the provider's] expenses, not being comfortable asking parents to make their co-payments, and believing that not collecting co-payments provides a competitive advantage."[48]

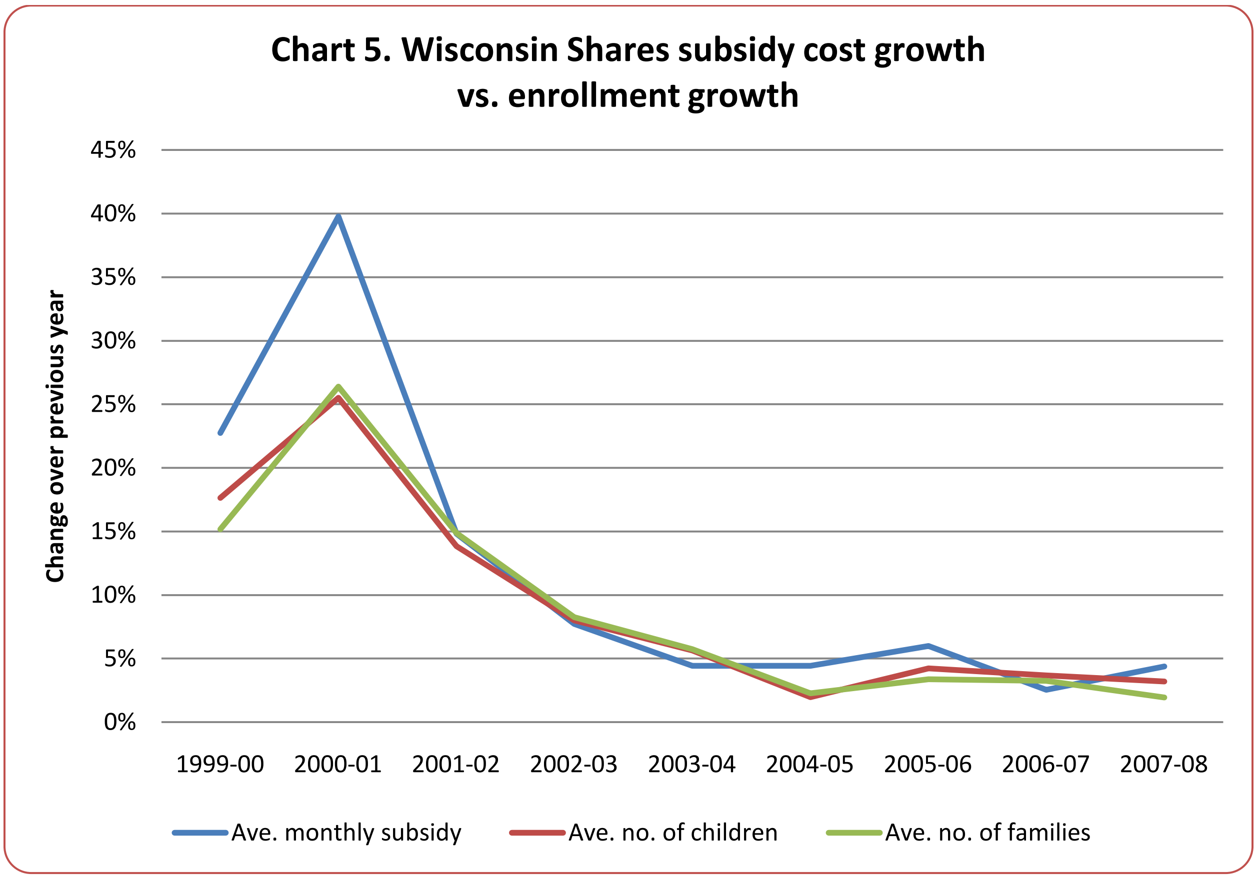
In the end, the original goal of keeping the costs of the program in check through cost-based co-payments was not achieved, due both to push-back from parents, providers, and child advocates, as well as federal policy that prohibited higher cost-sharing for costlier care. In addition, even with the new, income-based co-payment policy, the state did not effectively enforce the co-payment requirement, enabling providers to refund co-payments or even forego collecting them entirely. The result was that the incentive for choosing lower-cost care was effectively replaced by an incentive to choose a provider who would not charge the co-pay.

These policy implications likely have contributed to the program's large expense, including average monthly subsidy amounts that doubled in the first four years, outpacing the growth in the number of children and families served, as shown in **Table 6**. That growth in expense has slowed in the past decade, however, and is now more aligned to the growth in program participants, as shown in **Chart 5**.

[46] Pawasarat & Quinn, *supra*, October 1999.
[47] Ibid.
[48] Legislative Audit Bureau, "Wisconsin Shares Child Care Subsidy Program: An Evaluation," *Audit Report* No. 01-1, January 2001.

Table 6: Child Care Subsidy Growth Statewide								
Fiscal year	**Ave. monthly subsidy**	**Percent growth**	**Ave. no. of children**	**Percent growth**	**Ave. no. of families**	**Percent growth**	**Ave. subsidy per family**	**Percent growth**
1998-99	$10,597,636		26,763		15,412		$688	
1999-00	$13,006,963	23%	31,486	18%	17,750	15%	$733	7%
2000-01	$18,181,669	40%	39,520	26%	22,435	26%	$810	11%
2001-02	$20,875,288	15%	44,985	14%	25,769	15%	$810	0%
2002-03	$22,487,129	8%	48,584	8%	27,897	8%	$806	0%
2003-04	$23,485,024	4%	51,328	6%	29,496	6%	$796	-1%
2004-05	$24,527,416	4%	52,341	2%	30,166	2%	$813	2%
2005-06	$25,995,189	6%	54,561	4%	31,183	3%	$834	3%
2006-07	$26,659,373	3%	56,566	4%	32,199	3%	$828	-1%
2007-08	$27,824,584	4%	58,379	3%	32,820	2%	$848	2%

Source: Wisconsin Legislative Fiscal Bureau



Source: Wisconsin Legislative Fiscal Bureau

Implications for YoungStar

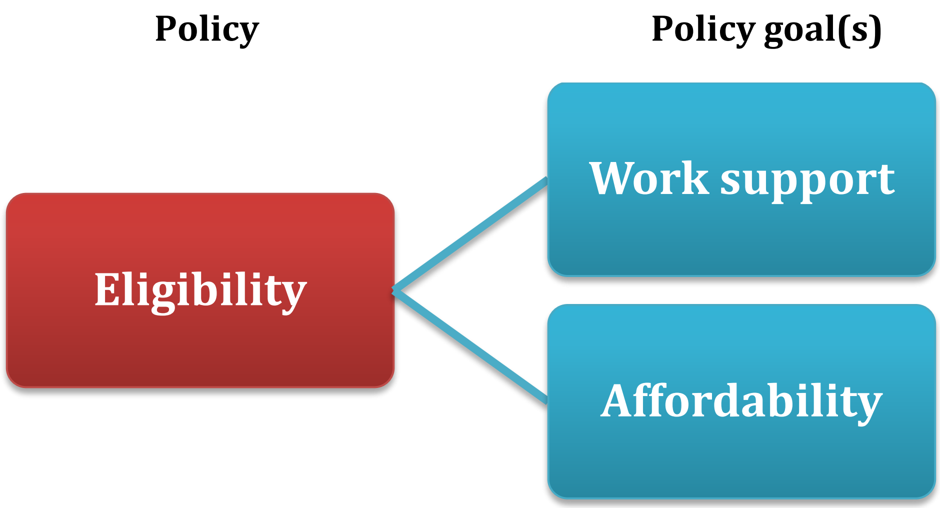
The YoungStar reform does not propose any changes to the current co-payment schedule, although the state would, for the first time, enforce the statutory co-payment requirement by requiring all providers participating in YoungStar to contractually agree to collect co-payments from parents. The concern that an enforced co-payment requirement will negatively impact the supply side of the market again has arisen among providers, who are worried that providers who serve mostly low-income families will have to leave the program if they are not able to collect the co-payments.

The current administration acknowledges this risk, but argues that enforcing the co-payment requirement will have an overall beneficial effect on quality by generating more income for providers to invest in their businesses. There is a potential detrimental effect as well, however, if parents who cannot afford to make weekly co-payments leave the regulated child care market and opt for informal, unregulated care, which is likely to be of even lower quality.

One policy option would be for the state to collect the co-payments directly, as is the policy in some other states. This would lessen the financial risk for providers, but may not prevent parents who cannot afford the co-payments from leaving the regulated child care market. Other options might include allowing non-profit providers to establish scholarships for parents who cannot afford co-payments, or allowing providers to phase in co-payment collection so that parents have time to make adjustments in their household budgets.

Defining low-income: eligibility

Subsidizing child care for *all* low-income families – and not just those receiving public benefits – was deemed a requisite for encouraging former welfare recipients to seek and retain jobs. However, meeting the goal of keeping the program affordable for the state would require a strict definition of low-income. The state's efforts to accomplish both objectives has been stymied by the lack of growth in family incomes, which has caused the pool of eligible families to increase and the cost of the Shares program to grow considerably, despite its focus on the most impoverished of working families. This result also likely has had a stifling effect on child care quality, as helping families access care has created greater demand, which has created an incentive for growth in child care quantity, and not quality. Thus, those implementing YoungStar must now seek to identify the financial resources to reward quality while controlling costs during a time of projected subsidy program growth.



Establishing an appropriate definition for "low-income" was critical to welfare reform's central goal of allowing parents to work by making child care more affordable, and also to the goal of keeping the state's costs under control. The definition hinged upon two determinations: At what level of income can a family be expected to afford 100% of the costs of child care? And, how many low-income working families can the state afford to help?

Prior to W-2, the maximum income limit for eligibility for a child care subsidy was set by the federal government at 75% of the state median income, which in 1995 was equal to an income of 220% of the federal poverty level (about $27,011 for a family of three).[49] Under W-2, the new subsidy program redefined eligibility to include only those families below 165% of the federal poverty line, or $20,857 for a family of three in 1996.[50]

Thus, in order to serve all low-income working families and eliminate the wait list[51] for child care subsidies, W-2 redefined "low-income." The expectation was that by lowering the income limit, *all* such low-income families could be served without spending considerably more money.[52] However, as noted in the discussion of co-payments, costs still increased dramatically once the program was implemented—the lowering of the income limits, like differential co-payments, did not keep costs down as hoped.

In 1999, the program was amended by the state legislature and new, more generous, income limits were created. To enroll in the subsidy program, a family now had to earn less than 185% of the federal

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[49] Legislative Reference Bureau, *supra*, May 1996.
[50] In Milwaukee County, this change resulted in 230 families who earned too much under the new rules seeing their subsidy phased-out as the Shares program was implemented. See Joel Dresang, "Child care advocates applaud suspension of co-payment plan," *Milwaukee Journal Sentinel*, Aug. 6, 1996.
[51] No more families remained on the wait list for subsidies as of June 1997. Office of Gov. Tommy Thompson, "Governor announces end of child care waiting list," press release, June 3, 1997.
[52] Chuck Wilhelm, Dept. of Health and Social Services, testimony to Special Committee on Child Care Economics, February 1995.

poverty level ($24,833 for a family of three) and could stay in the program until its income exceeded 200% of the poverty level ($26,846). This change not only opened up the program to more families, but also addressed an early critique of the program—the ability of a family to fall off the benefits "cliff."

Prior to 1999, a family of three that increased its earnings above 165% of the poverty line experienced a significant loss of disposable income due to the loss of the child care subsidy. For example, if the family increased its income so as to exceed the eligibility limit by $1,000, it would actually lose $5,000 of disposable income, due to increased child care costs.[53] This steep drop in disposable income served as a disincentive for families to seek higher-paying work and called into question whether the subsidy program was achieving its goal of being a work-support program. The legislature addressed this problem in 1999 Act 9 by allowing parents to retain eligibility even as their incomes increased.

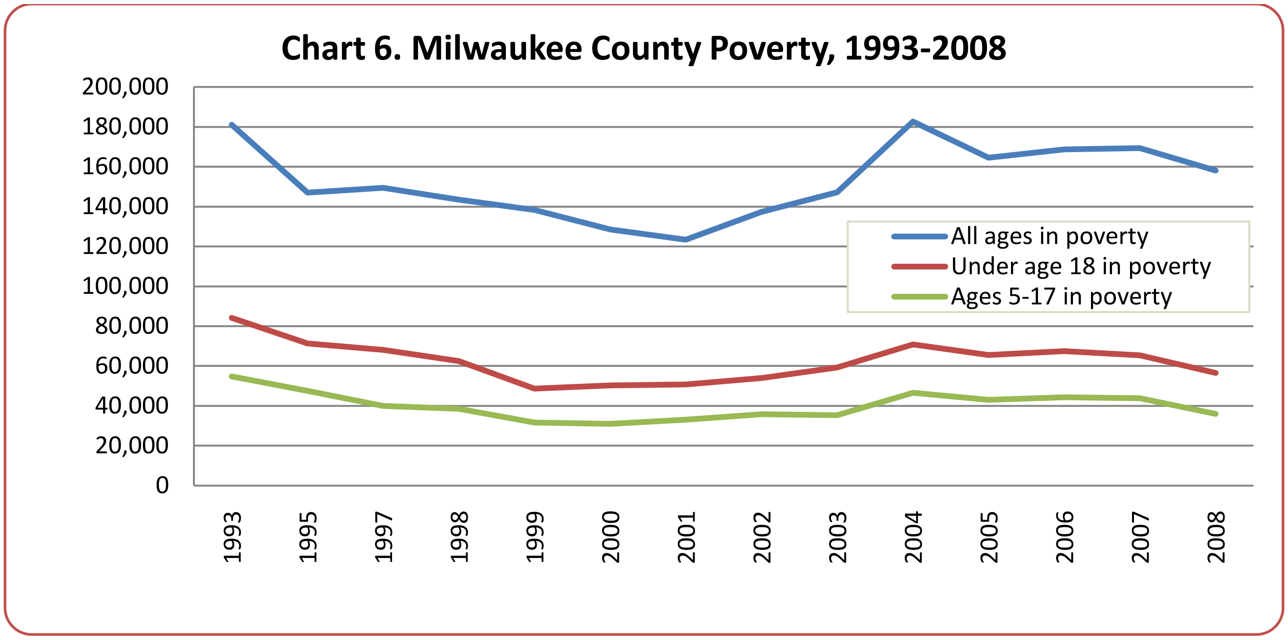
Meanwhile, the rates of people in poverty in Milwaukee County, on the whole, have grown since the implementation of W-2. After an initial decline, the numbers have rebounded to pre-W-2 levels. As shown in **Table 7**, Milwaukee County's poverty rate grew from 13.5% in 2001 to a peak of 20.2% by 2004. Worth noting is that a greater share of the population under age 18 is in poverty than the population as a whole. In 2008, while 17 percent of Milwaukee County's overall population was impoverished, 23.1 percent of those under age 18 had household incomes below the poverty rate (**Chart 6**). Also, in real dollars, the county's median income has declined considerably since 1997.

Table 7. Poverty rate and median income in Milwaukee County, 1997-2008

	Percentage in poverty, all ages	Median household income in 2010 dollars
1997	16.5	$50,480.90
1998	15.9	$50,671.97
1999	14.9	$48,717.47
2000	14.0	$50,038.70
2001	13.5	$47,549.49
2002	15.0	$46,497.30
2003	16.2	$46,301.00
2004	20.2	$45,485.92
2005	18.4	$42,454.20
2006	18.9	$44,662.93
2007	18.2	$44,992.10
2008	17.0	$46,398.32

Source: US Census, Small Area Income and Poverty Estimates.

[53] Public Policy Forum, "How taxes and benefits discourage people from working: Higher pay for the poor can yield no gain in disposable income," *In Fact*, Vol. 87 No. 7, July 1999.



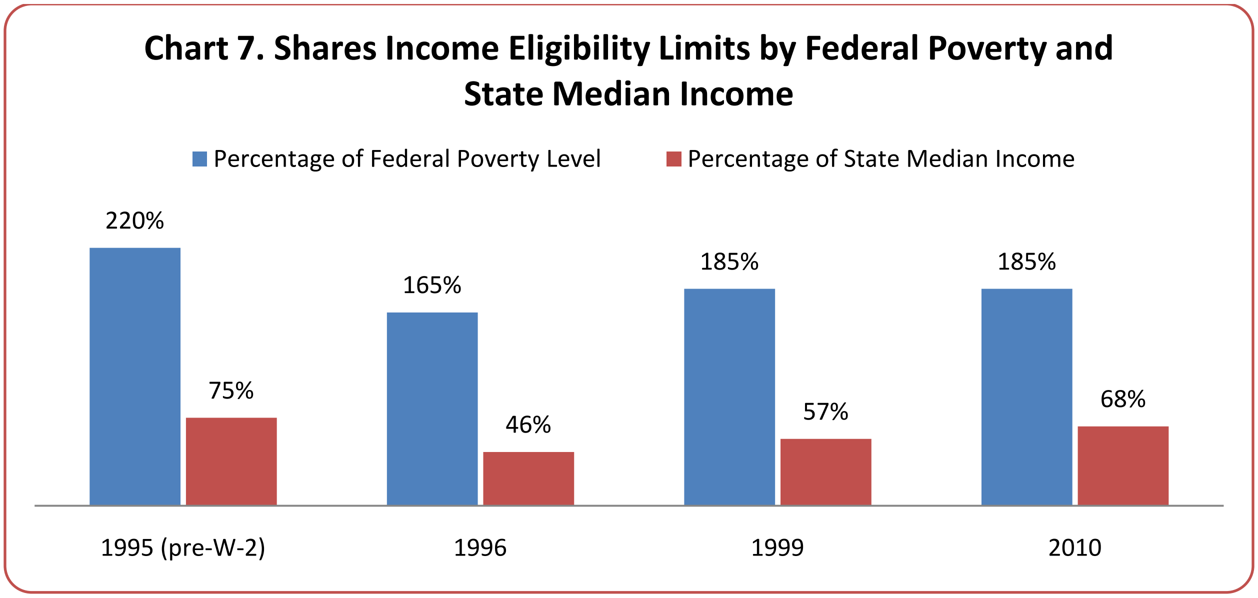
Data unavailable for 1994 and 1996. Source: U.S. Census Small Area Income and Poverty Estimates

Current Wisconsin Shares eligibility requirements mirror those enacted in 1999. **Table 8** shows the income limits for initial eligibility in effect today. The current median family income in the state is $49,993, which means eligibility for a family of three is cut off at 68% of state median income. As shown in **Chart 7**, which highlights the changes in the definition of eligibility over the years relative to the state median income, the program today actually reaches a greater portion of state families than in 1999.

Table 8. Wisconsin Shares Eligibility According to Income and Family Size

Family Size	Monthly Income	185% of Federal Poverty Line
2	$2,246	$26,955
3	$2,823	$33,874
4	$3,399	$40,793
5	$3,976	$47,712
6	$4,553	$54,631
7	$5,129	$61,550
8	$5,706	$68,469
9	$6,282	$72,209
10 or more	$6,859	$75,949

Sources: Wisconsin Dept. of Children and Families; US Dept. Health and Human Services



Prior to W-2, eligibility for child care assistance was set at 75% of the state median income and recipients also had to be part of the AFDC caseloads. Under W-2, the eligibility for child care assistance became defined by the federal poverty level, and when compared to state median incomes, has defined low-income more strictly. However, the lower income limits were seen as a trade-off necessary to affordably serve working families who had never received AFDC or other benefits.

Child care subsidy costs ballooned despite the objective of keeping welfare reform affordable. As discussed elsewhere in this report, this was caused by a variety of factors, including low co-payments, high reimbursement rates, and the modification of eligibility cut-offs. At least some of the unanticipated growth in costs also undoubtedly was attributable to fraud by providers and parents. Another key factor, however, has been the lack of income growth among Wisconsin households during the past decade-and-a-half. While many more families are indeed benefitting from the subsidy and the access to care it provides, the data indicate that families who are increasing their incomes to the point that they no longer need a subsidy are outnumbered by families who are joining the ranks of the poor and becoming eligible for the program. In essence, the strategy of focusing on the most impoverished working families has failed to control program costs because many more Wisconsin families meet the definition of impoverished.

A potential consequence of this development has been a stifling effect on child care quality. Trying to help more low-income families access care has created greater demand for care, which has created an incentive for growth in quantity, but not necessarily in quality of providers.

Implications for YoungStar

YoungStar does not call for any change in the income eligibility limits for working families or the step-down of the eligibility cut-offs. This means that program eligibility and costs can be expected to

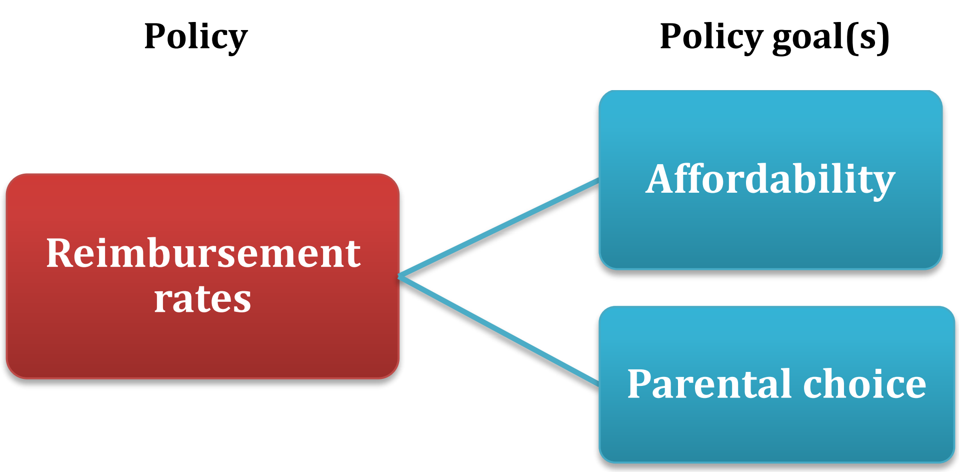
increase as long as Wisconsin family incomes fail to grow. The more the state spends on providing subsidies, the less able it is to afford quality improvement efforts such as technical assistance, professional development, or capital grants. Options for cutting costs would be to reset eligibility limits to serve even lower-income families or to appropriate a sum certain amount and create a waiting list for the subsidy. Either of those options, while meeting the goal of containing costs, would retreat from the goal of serving *all* the state's low-income working families.

Another option is to pay only for the care provided, rather than for the total hours of care, or slot, for which a child may be eligible. This strategy has been used in recent years on a temporary basis during times of tight state budgets. Moving to this type of reimbursement scheme permanently would have implications for quality, however, as higher-quality providers incur higher fixed costs, and incur these operational costs throughout the day, whether or not all children are present in the classroom.

An option utilized recently to control costs has been to vigorously prosecute fraud and waste within the system. While much of the money saved to date through these efforts has been reinvested in quality improvement efforts, legislators ultimately may decide to put these savings back in the general fund.

Creating access: competitive reimbursement rates

In order to create a greater supply of child care and to provide low-income parents with access to the entire market, the state needed to set the child care subsidy rate at a level high enough to provide an incentive for nearly all providers to accept subsidized parents. That reality conflicted, however, with the objective of having a subsidy program that could be fiscally sustainable over the long term. State officials sought to establish a subsidy rate that struck the right balance, but they have not been completely successful. While access to the market and the supply of care were greatly enhanced by state subsidies, program costs exploded. Furthermore, because the subsidy is not linked to the actual cost of care, low-quality providers can still earn a high subsidy rate. YoungStar holds potential to create a more market-based and quality-driven subsidy program, though controlling costs may still be an obstacle, and linking quality to cost may have negative impacts on private-pay families.



The total cost of the Shares program is determined not only by the size of the state's low-income population, but also by the subsidy amount paid on behalf of each family. The stated goal of the W-2 architects was to design a subsidy program that kept the state's costs down while providing a "fair market reimbursement rate to providers."[54] The intent was to help low-income parents afford their choice of care in a market that otherwise would have been out of their price range, as well as to mitigate the risk that the government would be overcharged for care.

To establish the fair market rate, Wisconsin follows federal regulations, which require states to base their maximum subsidies on prevailing market rates. The federal government has called for states to conduct regular surveys of provider pricing since 1988, and has required such surveys since 1998. The regulations specify that when states submit their two-year plans detailing their use of federal Child Care Development Block Grant funds, they prove that parents utilizing a child care subsidy have "equal access" to the child care market that serves private pay families. The federal equal access requirement is similar to Wisconsin's policy goal of preserving parental choice.

In order to prove equal access, states must rely on a child care market rate survey of the prices charged to parents by providers within a given geographic area (usually a county). The state and/or county must then use the survey data to establish the subsidy rate (also called the reimbursement rate) within that county. Under federal rules, unless granted a waiver, the state's two-year plan cannot rely on a market rate survey conducted more than two years prior.[55]

States are free to conduct their market rate surveys utilizing a methodology of their choosing, and little guidance is provided from the federal government as to how to conduct the survey or how to use it to ensure equal access to the market. Federal rules do suggest that states set their reimbursement rates such that the maximum subsidy amount allows low-income families to afford providers with prices up to the 75th percentile of cost (defined as the cost at which 75% of the slots can be purchased). States reimburse parents (or pay providers directly) up to the "ceiling" established by the maximum rate. A U.S. General Accounting Office study in 2002 found that more than half of the states set maximum subsidy rates at the 75th percentile of market prices, although not always based on the most current survey findings.[56]

Wisconsin is among those states with a policy to match the reimbursement rate to the 75th percentile of market prices.[57] Maximum rates for child care centers and regularly certified family providers have always been set at the 75th percentile as determined by the market rate survey, while provisionally

[54] Miller, *supra*.
[55] Roberta Weber et al., *Practices and Policies: Market Rate Surveys in States, Territories, and Tribes*, Oregon State University Family Policy Program and Oregon Child Care Research Partnership, May 2007.
[56] U.S. General Accounting Office, *Child Care: States Exercise Flexibility in Setting Reimbursement Rates and Providing Access for Low-Income Children*, GAO-02-894, Sept. 18, 2002.
[57] There are four age groups for which maximum rates are calculated: birth through age 1, age 2 through age 3 years + 11 months, age 4 through age 5 years + 11 months, and age 6 years and older. Higher subsidy rates are available for families of children with extreme medical conditions.

certified family provider rates have always been at the 50th percentile. The legislative intent at the time the Shares program was adopted was to allow high-quality providers[58] to be reimbursed under a different rate system, although the statute itself does not specify whether this system can exceed the 75th percentile maximum rates. Starting in 2001, this intent was realized by providing accredited providers a 10% increase in their reimbursement rate, provided that they charged this higher rate to their private pay families.[59]

While Wisconsin's reimbursement schedule meets federal guidelines and is within the national norm, like many other states, Wisconsin is now relying on an out-dated market rate survey to establish the 75th percentile. Due to state budget constraints, Wisconsin has kept the maximum rates frozen at 2006 levels[60] for the past four years, and the 2009-11 biennial budget extends the freeze until June 30, 2011.[61] Nevertheless, administrative rules and state statutes still mandate that counties conduct an annual market survey, which they continue to do.

It should be noted that the market rate survey is, as one study puts it, "a survey of the prices charged for child care, not a survey of the costs of child care."[62] Consequently, the subsidy itself is based on market prices and does not reimburse providers for the *actual* cost of providing care. Thus, if the private market will not bear the price of high-cost, high-quality care, the subsidized market will not, either.

Table 9 shows Milwaukee County's current maximum reimbursement rates as established by the 2006 market rate survey. Those rates are then compared to the hypothetical maximum reimbursement rates for 2010 had they been based on the most recent market rate survey conducted in 2008.

Table 9. Milwaukee County Maximum Weekly Child Care Reimbursement Rates, 2006 and 2008 Market Rate Surveys, in 2010 dollars

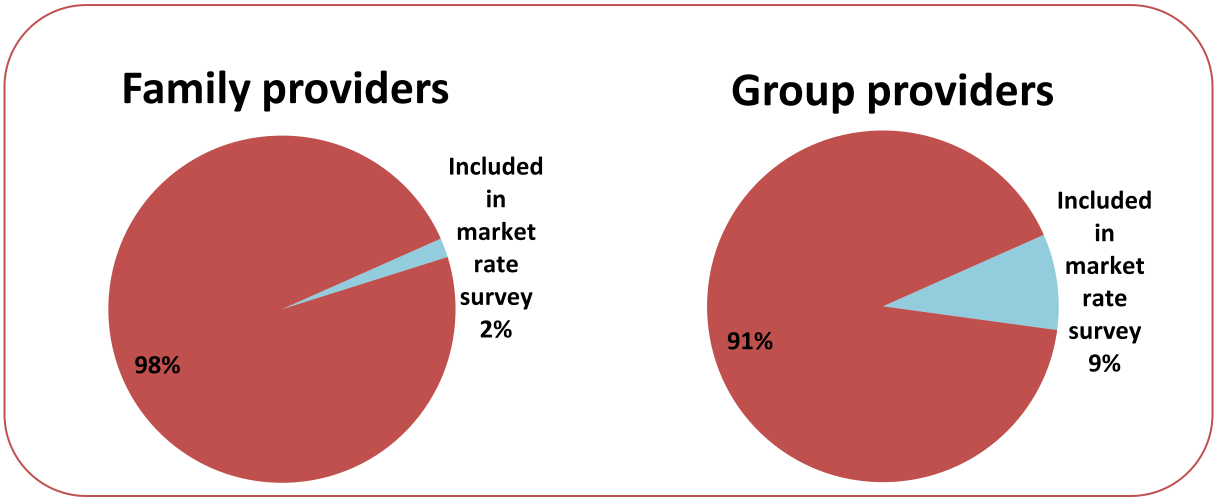
	Licensed Group weekly ceilings			Licensed Family weekly ceilings			Regularly Certified hourly rates		
	0-2 yrs	2-3 yrs	4-5 yrs	0-2 yrs	2-3 yrs	4-5 yrs	0-2 hourly	2-3 hourly	4-5 hourly
Rates Based on 2006 Market Survey	$232	$200	$180	$190	$175	$165	$4.07	$3.75	$3.54
Hypothetical Rates Based on 2008 Market Survey	$262	$227	$204	$208	$190	$182	n/a	n/a	n/a

Certified rates for 2008 not available.
Sources: Wisconsin Dept. of Children and Families

[58] Defined in the statute as "child care programs that exceed the quality of care standards required for licensure or for certification."
[59] Ehrle, *supra*, September 2001.
[60] See http://dcf.wisconsin.gov/childcare/wishares/pdf/2006rates.pdf for all Wisconsin rates.
[61] Wisconsin Bureau of Enrollment Management, Operations Memo #09-46: 2009 Child Care Rate Survey - Wisconsin Shares Child Care Subsidy Program, July 27, 2009.
[62] Weber, *supra*, May 2007, pg 3.

There is some evidence to suggest that Milwaukee County's particular provider characteristics create an inaccurate picture of prevailing market rates. Under state law, child care programs must serve at least 25% private pay families in order to be included in the market rate survey. Because of Milwaukee County's high rates of subsidy utilization among child care consumers, less than two percent of its family child care programs, and less than 10% of its licensed group centers, are qualified to be included in the analysis. More specifically, 19 of the 1,038 licensed family child care programs in the county, and 46 of the 475 licensed group centers, were qualified to take the 2006 survey upon which the current rates are based (see **Chart 8**).[63]

Chart 8: Percent of providers included in annual Milwaukee County market rate survey



It would appear, therefore, that the survey may fail to accurately determine market rates, because of both the influence of the extreme volume of subsidized families on the child care market and the resulting small and non-representative sample of centers. The public market has dominated the private market, instead of the other way around, which was the assumption of the "fair market rate" policy. Consequently, the market rates that are derived from the survey look to be unnaturally high, which in turn would cause the maximum reimbursement rate to be higher than it would be in a less-subsidized market. A 2006 report by the Child Care Rate Setting Task Force noted that Milwaukee's rates have increased annually above the consumer price index and the inflation rate for many years.[64] The report questioned how rates could increase so dramatically in an area serving the largest low-income population in the state, and concluded that the survey resulted in an inaccurate reflection of the fair market rates.

Ironically, today's high reimbursements rates resulted from a policy goal aimed at reducing the state's costs. At the time W-2 was under debate, child care providers and advocates opposed the planned reimbursement policies as being too low. Dane County's child care resource and referral agency, for example, calculated that family child care providers in that county would be able to earn a maximum of

[63] Child Care Rate Setting Task Force report to Secretary Roberta Gassman, Dept. of Workforce Development, November 2006.
[64] Ibid.

$4.50 per hour under the initial W-2 proposal.[65] Other advocates were concerned that these low wages, combined with a lack of business training, would prevent former AFDC recipients from finding stable jobs as family child care providers.[66]

Advocates also were concerned the new subsidy program was severely underfunded. If the program were to serve all the estimated new families with the same amount of resources, as was originally assumed by the Legislative Fiscal Bureau, then the estimated annual expenditure per child would have been just $2,600 in that first year—too low to purchase slots with most existing providers, especially those of high quality.[67]

It soon became clear that the state would need to spend much more than planned if the program was both to provide new job opportunities and create enough slots for all eligible children. In August 1996, the administration announced that funding for child care subsidies would in fact triple in the program's first year to $158.5 million, and would grow to $180 million by the second year.[68] By the 2010-11 fiscal year, the Wisconsin Shares program budget had grown to $402.5 million.

The change over time in the maximum subsidy for Milwaukee County providers is shown in **Table 10**. Most of the increase occurred between 1995 and 1999, the first three years of W-2. In addition, most of the increase has been among certified family child care providers. The freeze in reimbursement rates since 2006 has meant the total Shares cost increases since that time have resulted from increases in the number of families served.

Table 10. Milwaukee County Maximum Allowable Weekly Payments for Full-Time Care by Provider and Age of Child, Select Years (adjusted for inflation)

under 2 years of age	1995	1999	2001	2002	2006	2010	Percent change 1995 to 2010	Percent change 1999 to 2010
Group licensed	$142	$182.50	$200	$210	$232	$232	63%	27%
Family licensed	$122	$155	$180	$190	$190	$190	56%	23%
Certified	$115.90	$145.50	$169	$178	$203.50	$203.50	76%	40%
Provisional		$97	$112.50	$119	$135.50	$135.50		40%
2-12 years of age	**1995**	**1999**	**2001**	**2002**	**2006***	**2010***	**Percent change 1995 to 2010**	**Percent change 1999 to 2010**
Group licensed	$105	$153	$172.50	$182	$200	$200	91%	31%
Family licensed	$105	$140	$165	$175	$175	$175	67%	25%
Certified	$99.75	$131.50	$154.50	$164	$187.50	$187.50	88%	43%
Provisional		$87.50	$103	$109.50	$125	$125		43%

**2006 and 2010 rates are for children ages 2-3. Certified and provisional rates assume 50 hrs of care per week.*
Source: Planning Council for Health and Human Services; Wisconsin Dept. of Children and Families

[65] George Hagenauer, "Welfare reform plan allows too little for child care," *Wisconsin State Journal*, Sept. 4, 1995.
[66] League of Women Voters Social Policy website: www.lwvwi.org/cms/content/view/28/58/.
[67] Collins, James, "Workfare means day care," *TIME*, Dec. 23, 1996. See also Legislative Fiscal Bureau, 1995 AB 591 Fiscal Note, Nov. 16, 1995.
[68] Dept. of Workforce Development, "State unveils plan to spur growth in child care," press release, August 1996.

The high cost of today's Shares program arguably could be justified if it resulted from high reimbursement rates that were linked to the actual cost of high-quality care. But, more likely, a major cause of the high cost is the artificially high subsidy rate produced by a market dominated by subsidized parents. Wisconsin taxpayers, therefore, might reasonably question whether the state is getting its money's worth.

Implications for YoungStar

Because the YoungStar initiative is an attempt to incentivize higher quality, it ultimately could tie the subsidy rate more closely to the cost of providing quality care, thus giving those child care providers that serve high numbers of subsidized families a significant incentive to improve quality. But what about those providers that serve large numbers of non-subsidized families?

It is unclear whether the new reimbursement rates, like the existing 10% bonus for accredited centers, will be applicable only to those centers that charge rates to private pay families at least equal to the higher subsidy rate. If so, and providers increase their private pay rates in order to capture the new subsidy rates, the new system could "correct" the market by linking quality to price for all families, whether they are subsidized or not. There is a risk, however, that private pay families will not be able to afford these higher rates, meaning providers will not be able to increase their private pay rate and will have to forego the reimbursement bonus. If that were the case, it is unlikely that YoungStar will positively affect quality across the system.

Because YoungStar has been designed to be revenue neutral, most child care providers, at least initially, will continue to earn the same subsidy rate as they do today. If, as is expected, higher-quality providers eventually are differentiated from lower-quality providers by a quality-based subsidy differential, then the new policy goal of Wisconsin Shares could be realized, while still providing the access to child care so important to the W-2 program. This is more likely to happen, however, if the current subsidy rate can be moved in either direction—lower for the lowest-quality providers and higher for better-quality providers. Because YoungStar has been designed only to move the rate higher, it may not be able to create a sufficient differential to improve quality.

The original W-2 policy goal that is most likely to fall to the wayside under any quality improvement initative is the goal of keeping the state's costs low. As this goal is the one of the four original policy goals that arguably has *never* been met, its abandonment may be just a formality.

CONCLUSION

Wisconsin policymakers have been grappling with the persistence of low quality among the state's early childhood care and education providers for many years, acknowledging the decades of research showing that lower-quality early childhood settings are associated with costly and harmful economic and societal outcomes. The recently-approved YoungStar initiative is an attempt to use the large state child care subsidy program to provide incentives for improvement in quality. But if this system reform is to be effective, then it is important to understand that the child care system we have today is the result of policy goals originally designed to impact the supply of care, sometimes at the expense of quality.

We find that of the four major child care-related policy goals established by the initial architects of W-2, most were met. Wisconsin Shares dramatically increased the supply of regulated child care, creating thousands of entry-level jobs and enabling low-income parents to join the workforce. This was achieved because the reformers were successful in creating a policy that treated child care as a work support, as opposed to an educational program. In addition, parents were able to freely choose their child care provider because the subsidy was accepted by nearly all providers in the market. Unfortunately, the policies enacted to achieve these goals had unfortunate detrimental effects on child care quality by incentivizing the creation and parental selection of low-quality care.

The one welfare reform goal that was not achieved was the goal of keeping the state's costs under control. Because most of the policies implemented did not attempt to tie the subsidy rates to quality, and because there has been significant fraud in the system, the end result has been a very expensive program of mostly lower-quality care. The few policies that have recognized the high cost of high-quality care either were not actually implemented or have not had an effect on the market.

The new YoungStar program is intended to improve quality, but it may be difficult to achieve that objective within a Shares program framework that was originally designed, first and foremost, to ensure an adequate supply of affordable child care providers. In particular, policymakers might wish to consider the following cautions that emerge from this retrospective report:

1. Policies designed to fund child care as a work support differ fundamentally from policies designed to fund high quality early childhood care and education. Those seeking to implement YoungStar must determine whether policies aimed at creating and sustaining child care jobs and providing robust consumer choice – including the continued existence of provisionally certified providers – are still relevant and consistent with the quality-focused objectives of YoungStar.

2. Unintended consequences regarding the quality of child care and early childhood education are possible both from intervening in the child care market and from *not* intervening. For example, requiring co-payments may put child care out of reach of some parents, but not requiring collection of co-payments may allow providers to compete on economy rather than quality. Whether and how to aggressively enforce co-payments without contradicting the goals of YoungStar is one of the most challenging dilemmas facing program architects.

3. Controlling costs in the face of growing child care subsidy program participation has been a daunting challenge for the state, and it will be even more so when dovetailed with a new goal of incentivizing quality. The state's efforts to control costs during the early years of W-2 were stymied by the lack of growth in family incomes, which caused the pool of eligible families to increase. Identifying the financial resources to reward quality during a time of continued program growth may require limiting the supply of providers, curtailing program eligibility, or both.

4. Aligning profit incentives with quality incentives may be the most effective way to avoid encouraging low-quality care for Shares participants, but other challenges may emerge. There is no doubt that allowing subsidy rates to be disconnected from the cost of care has resulted in subsidy rates so high that providers have little need to compete on quality. Yet, while YoungStar holds great potential to create a more market-based and quality-driven subsidy program, controlling costs may still be an obstacle, and incentivizing high quality among providers that serve mostly cost-sensitive, private pay families may prove difficult.

But perhaps the most important lesson to be learned from this history, if policymakers hope to mitigate unintended consequences, is that they must carefully consider all the potential outcomes of their policy decisions and be flexible as regulations are implemented and tested. Just as Wisconsin Shares policies were very dynamic in the years after the initial implementation, YoungStar policies may need frequent tinkering.

A proven, robust relationship exists between higher-quality early childhood care and education and positive outcomes such as greater academic achievement, higher earnings potential, and productive citizenship. These long-term benefits drive the need for child care policy with a focus on quality.