

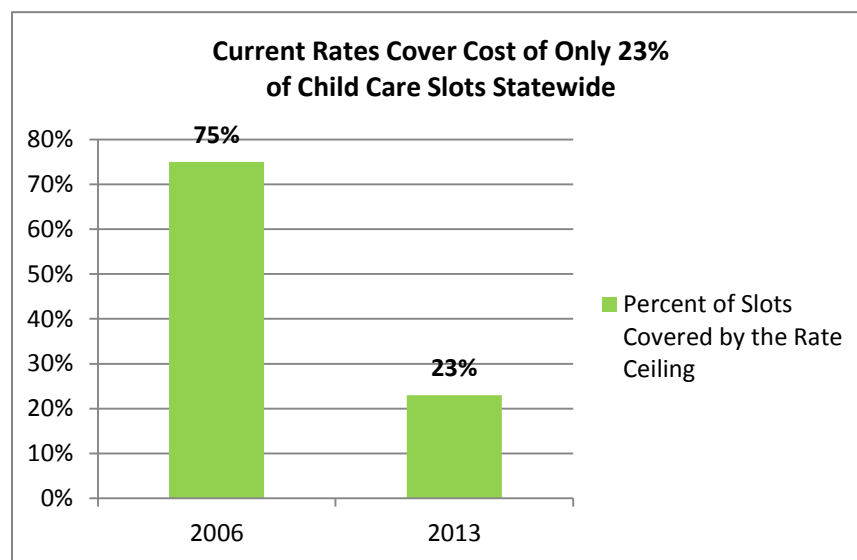
The Impact of the Seven-Year Freeze of Child Care Payment Rates

Current Rates Cover Cost of Only 23% of Child Care Slots

The 2012 child care market survey made available recently shows the impact of frozen child care payment rates in the Wisconsin Shares child care subsidy program. The freeze on child care rates has resulted in payments significantly below market rates after seven years of no increases for child care businesses that serve low-income working families across the state. The freeze has negative implications for the quality and stability of child care programs, the services children are receiving, and the ability of parents to afford child care.

Analysis of the Impact of Frozen Rates

Our analysis found that that in nearly every county and tribe, child care programs were paid at a low rate compared to the current private child care market. After seven years of frozen rates, the maximum payment rate (rate ceiling) covered **only 23% of child care slots on average statewide**, according to an analysis of a 2012 child care market rate survey by the Department of Children and Families (DCF). The analysis showed that the maximum rate in 2006, based on a 2005 market rates survey, covered the price of 75% of child care slots, but seven years later, that frozen rate is now estimated to cover the price of only 23% of child care slots.



This has had a major impact on payments to child care programs serving children of low-income working families. For instance, if payments were made based on 2012 market prices instead of the outdated 2005 market prices, child care programs would be receiving significantly higher payments per child, up

to more than \$3,000 per year per child, depending on the county. The table at the end of this policy brief illustrates the fiscal impact of the rate freeze for 14 counties.

The History of Rates in Wisconsin

The approach Wisconsin has traditionally used for determining how much to pay child care providers is to survey the prices in the private market by county and by tribe, and to set a reasonable payment rate based on those surveys. State statutes related to child care rates (*s.49.155 (6)*) indicate that rates shall be set “so that at least 75% of the number of places for children within the licensed capacity of all child care providers can be purchased by eligible individuals.” Federal child care regulations indicate that setting rates so that 75% of child care slots can be covered was a fair approach to rate setting, but do not mandate that approach.

The idea was that parents should have a reasonable range of affordable choice in selecting child care, and that, while their children might not have access to “Cadillac” services, they could afford programs of reasonable quality. Policymakers believed that children from disadvantaged backgrounds needed safe care while their parents worked, and that they also needed effective early learning and development experiences to succeed in school and beyond.

But statutory changes resulted in a rate freeze from 2006 through June 30, 2013. As this policy brief has demonstrated, the most recent analysis of market rates shows that only 23% of the places for children statewide can be purchased under the rates frozen in 2006.

2013-15 Budget Ends Frozen Rates

The welcome news is that the rate freeze was ended in the 2013-15 budget, and the Department of Children and Families is planning on modest increases in child care payments in State Fiscal Year 2014-15. But the changes planned will not come close to restoring rates that reflect the current child care market.

Why Did It Happen? Battening Down the Hatches After Fraud Scandal

Child care fraud that was revealed in a series of *Milwaukee Journal Sentinel* stories was a major impetus for changes in enforcement and policies implemented under both Governors Doyle and Walker. Some of the changes addressed fraud specifically, and some reduced child care spending overall. Most of the fraud uncovered was in Milwaukee, but a series of anti-fraud and belt-tightening measures ended up affecting all child care programs statewide that were participating in Wisconsin Shares, regardless of whether or not they had committed fraud. As often happens, these actions to correct a real problem have resulted in unintended consequences, negatively affecting solid child care programs operating in good faith and the children and families they serve.

Fiscal Obstacle to Quality

As the anti-fraud and cost-cutting measures were being implemented, the state also launched the YoungStar quality rating and improvement system, the most significant quality improvement initiative for child care in Wisconsin history. YoungStar rates all child care programs serving Wisconsin Shares-funded children on a 5-star scale, and provides training, technical assistance and other supports to help

programs improve. YoungStar brought a tiered-reimbursement system that provides higher payments for higher quality to help programs make and sustain improvements. A top goal of YoungStar is to help children from disadvantaged backgrounds prepare for school.

However, the tiered YoungStar incentive payments are tied to the frozen Wisconsin Shares rates. Because the payment rates are not keeping up with market prices, the intended positive impact has been undermined. So far, for a large segment of the child care industry, the YoungStar fiscal incentives have been more than cancelled out by shrinking Shares payments.

Fiscal Impact for Child Care Programs in Selected Counties

The table below, based on Department of Children and Families data and analysis, documents the impact on payments child care programs are facing this year, comparing the 2006 frozen rates with rates if they were based on 2012 market survey data. The table examines payment rate maximums for 2- to 3-year-olds served in group child care centers to demonstrate the impact of frozen rates in 2013 for a typical child care setting (the 2-3 age group is one of four age groupings for rates, with a high percentage of children in this age group).

The table examines rates in 14 counties, all serving over 1,000 children annually. According to DCF data, these 14 counties served 71,465 children from low-income families in 2012, 80% of the children served by Wisconsin Shares statewide. The market rate survey included private pay child care prices in 6,157 regulated child care programs statewide, a large sample size.

The table illustrates the loss of revenue caused by the rates freeze for most child care programs that serve the children of low-income working families subsidized by Wisconsin Shares. The annual losses per child range from \$500 to \$3,450 in the 14 counties. And the more low-income children a program serves, the greater the loss in Shares payments. So, for instance, a typical center in Outagamie County serving 25 subsidized 2- to 3-year-olds is receiving \$57,500 less per year than it would have received if the rates were set based on the more current 2012 market survey in the county.

Data on the impact of the rates freeze for all counties is available at http://wccf.org/pdf/impact_of_freeze_table.pdf.

**Negative Impact of Frozen WI Shares Payment Rates
Compared with Updated Rates Based on 2012 Market Rate Survey
Sample: 2- and 3-year-olds served in group child care centers**

County	2006 Frozen Weekly Maximum Rate (based on 2005 Market Survey) for children ages 2-3 served in group child care centers	2013 Weekly Maximum Rate If Based on 2012 Market Survey for children ages 2-3 served in group child care centers	Weekly Loss Per Child	Annual Loss Per Child (assuming 50 weeks)
Brown	\$169.40	\$201.00	\$31.60	\$1,580.00
Dane	\$200.00	\$269.00	\$69.00	\$3,450.00
Eau Claire	\$171.60	\$198.00	\$26.40	\$1,320.00
Fond du Lac	\$152.90	\$182.00	\$34.50	\$1,725.00
Kenosha	\$200.00	\$210.00	\$10.00	\$500.00
La Crosse	\$143.00	\$160.00	\$17.00	\$850.00
Marathon	\$165.00	\$187.50	\$22.50	\$1,125.00
Milwaukee	\$200.00	\$268.00	\$68.00	\$3,400.00
Outagamie	\$165.00	\$211.00	\$46.00	\$2,300.00
Racine	\$187.00	\$220.00	\$33.00	\$1,650.00
Rock	\$172.70	\$190.00	\$17.30	\$865.00
Waukesha	\$200.00	\$250.00	\$50.00	\$2,500.00
Winnebago	\$183.70	\$221.00	\$37.30	\$1,825.00
Wood	\$137.50	\$165.00	\$27.50	\$1,375.00

Implications

Currently, Wisconsin policymakers are focused on improving 3rd grade reading proficiency and school achievement. That can only happen if children are ready for school. What happens in child care policy has significant implications for children at risk of being unprepared for school. YoungStar is making progress in improving quality, and the recent moves to end frozen child care rates and to begin to bring rates closer to current market rates should help. But if our young children are to thrive, Shares policies and YoungStar goals should be in sync, instead of working at cross purposes. Fair Wisconsin Shares payment policies are essential for a strong, sustainable system of high-quality child care.

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