In 2002, $263 million was invested in child care through the Wisconsin Shares subsidy program. Of the approximately $195 million that went to group child care centers, seven counties received more than $5 million (Figure 12.4).

Authorizations to serve subsidized children have been granted to approximately 80% of all regulated child care providers through a fully automated statewide Child Care Payment System (CCPS). Providers routinely file attendance reports and receive bi-weekly payments. Providers are informed when authorizations change, including a 10-day notification prior to termination of subsidy. Over 1,700 users have accessed the web-based Child Care Provider Information (CCPI) system to examine, verify, and update child attendance records for children in their care.

Subsidy policies are complex, and managing the subsidy program has administrative challenges. The state needs to be fiscally responsible and alert to potential fraud. We highlight some state policies that may promote or hinder the quality of providers’ experiences, as well as their financial stability.

Policies that impact provider experience

- **Retrospective payment.** Unsubsidized care is frequently paid for before the service is delivered; subsidized care is paid for after the service has been provided.

- **Monitored attendance.** Private pay and subsidized customers typically pay for a child care slot, including hours the child may not be in attendance due to illness. Providers must document attendance of subsidized children, prior to payment.

- **Parent co-payment.** Private pay customers are typically charged the full price of child care. For families receiving subsidy, a sliding-fee scale based on family size, income, and type of care is used to determine the actual amount the provider receives. The provider has the option to collect co-payments from parents, find other sources to cover co-payments, or absorb the loss.

- **Mirror the private market.** Each county and tribe conducts an annual rate survey of licensed child care providers. Reimbursement rates are set to allow low-income families financial access to approximately three-quarters of all child care slots in each county. This year, the state implemented new age categories and required that only rates for providers who served at least 10% private pay parents be included in calculation of the reimbursement rate. Full participation by licensed providers in the rate survey is critical because the county reimbursement rate is designed to reflect the entire local market. However, local market rates often underestimate the full cost of care, which is subsidized, in part, by low provider wages and minimal benefits.

- **Reward higher quality through tiered reimbursement.** The state reimburses providers for care of subsidized children by paying either the provider’s price or the county’s maximum rate, whichever is lower. Wisconsin also allows a 10% higher reimbursement maximum for children who attend accredited programs that meet high standards for quality. Therefore, the exact amount of reimbursement for an authorization depends on several factors: the parent’s co-payment amount, accreditation status, the price the provider charges (for a particular age group and type of care), and the county maximum reimbursement rate.

Wisconsin experiences few of the pitfalls cited in national studies of state subsidy programs. However, potential cuts in federal child care block grant funding could mean serious adjustments to Wisconsin’s subsidy program and to providers who serve low-income children.

Policies that impact provider reimbursement

Two state policies impact maximum county reimbursement rates for subsidized children:

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Research questions for this Issue Brief:

- How do providers’ prices compare with county reimbursement rates?
- Is the differential reimbursement policy working?
- Has the new rate structure impacted county maximum rates?
Maximum county reimbursement rates for different age groups and different types of care vary widely across the state. For example, rates for 4-5-year-old children in group centers average $119/week, but range from $60/week in Buffalo County to $175/week in Dane County. This range represents wages in local communities and costs to provide care. Figure 12.1 displays the percentage of accredited and non-accredited group centers (not including Milwaukee) whose prices exceed their maximum county reimbursement rates. Relatively higher prices for accredited care reflect the typically higher costs and higher quality associated with this care. 

In Milwaukee County, only 80 out of 359 group centers met the criteria for inclusion in the 2002 rate survey. Because a high percentage of child care programs in Milwaukee have no private pay customers, the Milwaukee child care market appears to be more public than private.

The state pays a higher reimbursement rate for accredited programs, in part, to provide an incentive for quality improvement, since higher quality care has a positive impact on later school performance and life outcomes of children from low-income households. In March, 2003, approximately 4,000 low-income children of all ages were able to receive care from accredited providers that they might not otherwise have had without subsidy. Among the 107 accredited centers statewide serving children 0-2 years that same month, only 20% had prices at a level that allowed them to receive the full 10% benefit of being accredited. When comparing non-accredited providers’ prices for infants and toddlers with maximum county rates, we find that almost three-quarters charge less than the maximum county reimbursement rate. These programs would receive no financial benefit from becoming accredited, unless they also raised their prices for private pay parents.

Non-accredited centers whose rates exceed the county maximum would receive some financial benefit. However, only if providers’ rates were 10% higher than the county maximum would they receive full financial benefit from becoming accredited (Figure 12.2).
Policy Implications

1. Approximately 80% of regulated providers participate in the subsidy program, a higher percentage of participation than is found in most states. This indicates that Wisconsin’s reimbursement policies and procedures reasonably reflect the private market, recognize the important role of providers, and provide subsidized parents with a wide range of choices. As policymakers consider further automation of the subsidy system, current principles and policies can provide sound guidance.

2. The policy of higher maximum reimbursement rates for accredited programs does not appear to be working entirely as intended, since most providers would need to charge higher prices to private pay parents in order to benefit from the higher accreditation rate. Policymakers may wish to explore financial incentives to becoming accredited that are not tied to the private market prices of providers serving low-income families.

3. The new policy of charging different rates for different age groups to more accurately reflect the “private” market has been documented as achieving its purpose. Further analysis will be needed to assess the effectiveness of the policy change of removing programs with fewer than 10% private pay parents from the maximum rate calculations. It will be even more important to judge how this policy impacts providers and local communities in 2003, when programs with fewer than 25% private pay customers will be excluded from the annual rate survey.

End Note: The next Issue Brief will focus on consumer indicators of child care quality.

References

1. www.dwd.state.wi.us/dws/programs/childcare
7. Annual Rate Survey: (Fall, 2002). Madison WI: Department of Workforce Development.
Issue Brief #12:  
Child Care Subsidy: Impact on Providers and Communities

University of Wisconsin-Extension (UWEX), Wisconsin Department of Workforce Development (DWD) Office of Child Care, and Wisconsin Child Care Resource and Referral (CCR&R) Network have joined in partnership to assess the quality of child care for low-income children.

Leaders in the Research Partnership include Mary Roach, Diane Adams, Dave Riley, and David Edie (UW-Extension), and Jane Penner-Hoppe (Child Care Resource & Referral Network). Data analyses are conducted by UW-Extension staff: Diana Durant, Bong-Woon Ha and George Hagenauer. “Brief & to the Point” is produced by Deb Zeman.


We are grateful to the child care programs and providers who enthusiastically responded to our research requests, and we dedicate our findings to the young children in Wisconsin who depend upon high quality child care for their “good beginnings.”

“Brief and to the Point” issue papers are also available on the Wisconsin Child Care Research Partnership website: www.uwex.edu/ces/flip/ece/wccrp.html

To order additional copies of this Issue Brief, call 877.637.6188; fax 608.263.7969, or e-mail: zeman@admin.uwex.edu