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WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS

2009-10

(session year)

Senate

(Assembly, Senate or Joint)

Committee on ... Children & Families & Workforce Development (SC-CFWD)

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
  (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

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May 22, 2007 Joint Committee on Finance Paper #891

Child Care Subsidies (DWD -- Economic Support and Child Care)

Bill Agency

[LFB 2007-09 Budget Summary: Page 613, #9, Page 617, #20]

CURRENT LAW

The Wisconsin Shares child care subsidy program is administered by the Department of Workforce Development (DWD) through local Wisconsin Works (W-2) agencies and county human and social services departments. In order to receive a child care subsidy, families must need child care to do any of the following: (a) work in an unsubsidized job; (b) work in a W-2 employment position; (c) participate in the FoodShare employment and training (FSET) program; (d) participate in basic education or a course of study to obtain a GED, if the W-2 agency determines that basic education would facilitate the individual's efforts to maintain employment; (e) participate in a course of study at a technical college or participate in educational courses to provide an employment skill, if the W-2 agency determines that such education would facilitate the individual's efforts to maintain employment; (f) meet the Learnfare school attendance requirement for children of W-2 participants; or (g) obtain a high school diploma or participate in a course of study to obtain a GED if the parent is age 19 or younger. An individual may receive a child care subsidy under items (d) and (e) for up to two years.

Child Care Provider Reimbursements. Under Wisconsin Shares, the state subsidizes the cost of child care for qualified families by making payments directly to the child care provider chosen by the parent. A child care administrative agency must authorize payment for licensed group and family day care centers and must authorize payment based on authorized units of service. A child care administrative agency is any agency that has a contract with DWD to administer child care funds or any agency that has a subcontract to administer child care funds with an agency that has a contract with DWD. Authorized units of service are the number of hours authorized for each child to be in child care. Historically, Wisconsin Shares has reimbursed providers based on authorized units of service, rather than the units of service actually used.

However, on April 1, 2007, DWD changed the way reimbursements are made for licensed family or group programs, or child care run by schools that have enrollment-based authorizations. Wisconsin Shares no longer pays providers for absences in child care when attendance is less than half the number of authorized hours per week for enrollment-based authorizations. Reimbursements, when attendance falls below 50%, are based on the units of service actually used, rather than the authorized units of service. This policy applies to unexcused absences only.

Child Care Provider Reimbursement Rates. For 2006 provider reimbursement rates, DWD established four rate zones based on the percent of the population in each county that lives in an urban area: (a) 0-24%; (b) 25-49%; (c) 50-74%; and (d) 75-100%. Each county and tribe was placed into one of these four zones based on U.S. census data. Rates were then set so that at least 75% of the number of places for children with licensed providers could be purchased at or below the maximum rate in each zone. Due to increases in caseload and costs to the Wisconsin Shares program, DWD did not revise the 2006 provider reimbursement rates for 2007. Instead, DWD froze the reimbursement rates at the 2006 level.

Income Eligibility. To be eligible for child care subsidies, families must generally have an initial income of no more than 185% of the federal poverty level. Once eligible, families retain eligibility until gross income exceeds 200% of the federal poverty level. There are no resource limits for the program. The individual applying for care must be a custodial parent, guardian, foster parent, legal custodian, or person acting in place of a parent. The subsidy can be provided for children under age 13 and for children under age 19 who are physically or mentally incapable of their own care.

Copayments. Families are required to pay a weekly copayment depending on the family's gross income, family size, the number of children receiving child care, and the type of care selected. Copayments are not required for the following types of participants: (a) foster parents and kinship care parents who have court-ordered placement of a child; (b) FSET participants; and (c) teen parents who are Learnfare participants. The minimum copayment for the type of child care and number of children receiving care is required for the following participants: (a) individuals who are under the age of 20 and attending high school or participating in a course of study to obtain a GED; (b) non-court-ordered kinship care parents; and (c) parents who have left a W-2 employment position for an unsubsidized job within the last month. Families with children who receive child care services for 20 hours or less in a week must pay one-half of the usual copay amount. DWD has the authority to change copayments administratively to account for the following factors: (a) child care price changes; (b) the amount of available child care funding; (c) inflation; (d) changes in the federal poverty level; and (e) other economic factors that affect the cost of care, such as change in demand. Attachment 1 shows the current copayment schedule, implemented in March, 2007.

Waiting List. Wisconsin Shares currently has no waiting list for families who receive child care subsidies.

2005 Wisconsin Act 25 allocated $313,432,100 in 2006-07 for Wisconsin Shares. 2007 Wisconsin Act 5 provided an additional $30 million for Wisconsin Shares to address a projected shortfall. Therefore, current funding for Wisconsin Shares is $343,432,100 in 2006-07.

GOVERNOR

Provide $2,284,800 FED in 2007-08 and $3,273,300 FED in 2008-09 for direct child care services under the Wisconsin Shares program, including funding for child care subsidies, local administration, on-site child care at job centers and counties, and migrant child care. Funding for the Wisconsin Shares program under the bill would total $314,888,400 in 2007-08 and $315,821,900 in 2008-09. These amounts are based on estimates of how much the program would cost under current law with adjustments to account for savings relating to the extension of benefits for caretakers of newborn infants and the cost-saving measures summarized below. Federal funding for Wisconsin Shares is from the temporary assistance for needy families (TANF) block grant and the child care development block grant (CCDBG).

Attendance-Based Provider Reimbursements. Beginning in 2006-07, DWD implemented a change to attendance policy, effective April 1, 2007. Wisconsin Shares no longer pays the child care provider for unexcused absences in child care when attendance is less than half the number of authorized hours per week for enrollment based authorizations. This change affects parents who have children in licensed family or group programs, or child care run by public schools and have enrollment based authorizations. The bill assumes that this policy will be continued through the 2007-09 biennium, with estimated savings of $20,387,000 annually.

Income Eligibility. The bill would reduce the initial income eligibility threshold from 185% of the federal poverty level to 175% of the federal poverty level. The recipient would remain eligible until gross income exceeds 190% of the federal poverty level, rather than 200% under current law. This provision would first apply to individuals who first apply for a child care subsidy, or reapply for a child care subsidy after losing eligibility, on or after the effective date of the bill. The 200% threshold would continue to apply to families who are receiving a subsidy on the bill's effective date. This measure would result in estimated savings of $1,836,600 in 2007-08 and $4,764,100 in 2008-09.

Copayments. DWD increased copayments on March 11, 2007, by 8%. The bill assumes that copayments will be increased again in March, 2008, by 7.0% and in March, 2009, by 3.1%. The copayment schedule would be modified so that the aggregate amount of copayments increases by the percentages shown above. However, the copayments for individual families could increase by more or less than these percentages. This measure would result in estimated savings of $3,538,600 in 2007-08 and $5,627,800 in 2008-09.

Waiting List. The bill would authorize DWD to implement a prioritized waiting list system for applicants who are otherwise eligible for a child care subsidy if DWD determines that the projected child care subsidies expenditures would exceed the amount budgeted. An applicant on the waiting list would not receive a child care subsidy until sufficient funding was available. However, participants in work components of W-2 would not be subject to the waiting list. This measure would result in estimated savings of $6,359,700 in 2007-08 and $6,756,500 in 2008-09.

Information Technology. The bill would provide $287,000 in 2007-08 and $88,800 in 2008-09 to increase funding for information technology (IT) changes to accommodate the cost savings measures to the child care subsidy program.

OVERVIEW

Costs for the Wisconsin Shares program have continued to increase every year. In 2006-07, it is anticipated that expenditures will total $335.5 million. This amount is more than half of TANF-related expenditures.

While the costs of Wisconsin Shares have continued to increase, revenue sources have not. The CCDBG has totaled between $81 million and $83 million per year, and it is expected to total $82.9 million annually during the 2007-09 biennium. In addition, the TANF block grant has remained the same, and will remain the same as reauthorized under the federal Deficit Reduction Act of 2005, at $314.5 million annually.

To address the growing costs of the Wisconsin Shares program, the following actions could be taken: (a) increase GPR funding; (b) reduce funding to other TANF-related programs to provide funding for Wisconsin Shares; (c) reduce funding for Wisconsin Shares by implementing cost savings measures; or (d) some combination of (a) through (c). As noted, SB 40 would implement several cost saving measures to reduce costs for the Wisconsin Shares program.

This paper provides some background on the child care program, provides estimates of the costs of Wisconsin Shares under current law, and describes the following cost saving measures that could be implemented: (a) increasing copayments; (b) modifying reimbursement rates; (c) modifying income eligibility limits; (d) implementing waiting lists; or (e) some combination of (a) through (d). In addition, this paper provides options to reduce funding for county administration of Wisconsin Shares, on-site child care, and migrant child care.

DISCUSSION POINTS

Background

1. Currently, Wisconsin's child care program is composed of three elements: (a) the direct child care program, which provides child care subsidies through the Wisconsin Shares

program, county administration, on-site child care at job centers and counties, and migrant child care services; (b) programs to improve the quality and availability of child care; and (c) state administration of the child care program.

2. Subsequent to introduction of the 2007-09 budget, the administration requested a modification to decrease the amount of TANF funds to support the earned income tax credit (EITC) by $7 million annually and to increase the amount of TANF funds for direct child care by $7 million annually. As a result, GPR funding for the EITC would increase by $7 million annually to replace the TANF funds. These additional TANF funds would be used to eliminate the increase in copayments, other than an inflationary increase, as proposed under SB 40. The amount received in excess of the funding used to eliminate the increase in copayments would be used to eliminate or delay implementation of a waiting list.

3. There are three sources of funds for Wisconsin's child care program: (a) the federal CCDBG; (b) the federal TANF block grant; and (c) GPR required to be spent as maintenance-of-effort for the CCDBG. Table 1 below details the proposed amounts and distribution of child care funding for the next biennium as proposed by the Governor. The table includes the amounts provided in SB 40 plus the $7 million annually requested by the administration after the bill was introduced. This paper focuses on the direct child care program.

TABLE 1

Child Care Sources of Funding and Proposed Uses for 2007-09

Funding Sources	2007-08	2008-09
GPR	$28,849,400	$28,849,400
CCDBG	83,362,100	83,362,100
TANF	226,574,100	226,914,600
Total	$338,785,600	$339,126,100
Uses		
Direct Child Care	$321,888,400	$322,821,900
Child Care State Administration	8,193,700	7,600,700
Quality Care for Quality Kids	8,703,500	8,703,500
Total	$338,785,600	$339,126,100

4. The amount of funding for direct child care reflects expected increases in the cost of the program under current law plus the implementation of the following cost-saving measures: (a) attendance-based reimbursements; (b) a lower threshold for income eligibility; (c) increased copayments; and (d) a waiting list. The amount also includes funding for IT changes to accommodate the cost saving measures.

Direct Child Care Subsidy Estimates

5. Child care expenditures have continued to rise over the 2005-07 biennium. Direct child care expenditures totaled $324.9 million in 2005-06, compared to a budgeted level of $310.3 million. For 2006-07, program expenditures are expected to total $335.5 million, compared to the budgeted level under 2005 Wisconsin Act 25 (the 2005-07 biennial budget bill) of $313.4 million. 2007 Act 5 provided an additional $30 million for child care subsidies to alleviate the deficit. Therefore, the amount now budgeted for direct child care subsidies in 2006-07 is $343.4 million. As discussed in further detail below, although child care expenditures are less than the amount currently allocated, there is not a surplus of TANF funds because less revenue is available than budgeted, and there are increased expenditures in other TANF-related programs, such as emergency assistance.

6. While the number of children in subsidy-supported care has increased, monthly subsidy amounts have returned to a similar level as in 2004-05, as shown in Table 2 below. Monthly subsidy amounts decreased in 2006-07 compared to 2005-06 for several reasons, including: (a) changing the methodology of setting provider reimbursement rates to zones, rather than county by county; (b) freezing 2007 reimbursement rates at the 2006 level; and (c) increased copayments.

TABLE 2

Wisconsin Shares Participants and Subsidy Levels
1998-99 Through 2006-07 (Projected)

Fiscal Year	Monthly Children	% Increase	Average Monthly Subsidy Per Child	% Increase
1998-99	26,763		$396	
1999-00	31,486	17.6%	413	4.3%
2000-01	39,520	25.5	460	11.4
2001-02	44,985	13.8	464	0.9
2002-03	48,584	8.0	463	-0.2
2003-04	51,328	5.6	458	-1.1
2004-05	52,341	2.0	469	2.4
2005-06	54,561	4.2	476	1.5
2006-07 (Estimated)	56,651	3.8	470	-1.3

7. In preparing the budget bill, the administration estimated the total cost of the direct child care program under current law at $347.6 million in 2007-08 and $354.2 million in 2008-09 (not including the reductions for the extension of grants for caretakers of newborn infants or for the cost-saving measures). The administration's estimate of the cost of child care subsidies under current law assumes that program expenditures will total $341.8 million in 2006-07 and that direct child care subsidy costs will increase by 2% in each year of the biennium.

8. The revised estimate of $335.5 million for 2006-07 is based on an average of 56,651 children, average monthly subsidies of $470 per child, and county administration, on-site child care, and migrant child care services costs of $16.0 million. The revised estimate for 2006-07 reflects year-to-date growth in subsidy payments and the number of children served, with adjustments to account for seasonal patterns in program expenditures. Through April, total subsidy payments were 2.2% higher than the same period last year, and the average number of children served each month was 3.8% higher.

9. As noted above, actual child care expenditures exceeded the amount budgeted by $14.6 million in 2005-06. As a result, approximately $6.1 million GPR and $4.0 million in child support funds were transferred from the amounts budgeted for W-2 and related programs in 2006-07 to fund child care expenditures in 2005-06. Also, due to the implementation of a new W-2 service delivery model in Milwaukee County, $4.5 million less was expended for the W-2 agency contracts in 2005-06 than what was budgeted. According to DWD, this $4.5 million was used to fund child care expenditures in 2005-06, but is still needed to fund the W-2 agency contracts in 2006-07. Although, 2007 Act 5 provided sufficient funding for the direct child care program, actions taken to address the child care deficit in 2005-06 resulted in less revenues for W-2 and TANF-related programs in 2006-07. The resulting deficit to W-2 and TANF-related programs is addressed in a separate budget paper.

10. As indicated, the administration assumes 2006-07 expenditures of $341.8 million and that the direct child care subsidy funding would increase by 2% annually during the 2007-09 biennium. While the increase in participation has slowed down in 2006-07, it may be optimistic to assume overall growth of 2% annually, given that participation grew by 4.2% in 2005-06 and by 3.8% in 2006-07. A 3.4% increase in participation in 2007-08 and a 3.0% increase in 2008-09 may be more realistic.

11. If costs of the direct child care program were reestimated for 2007-08 using a 3.4% increase in 2007-08 and a 3.0% increase in 2008-09 in the average number of children served per month, no increase in the average subsidy over the biennium, and county administration, on-site child care, and migrant child care services costs of $16.0 million, projected subsidy costs would total $346.4 million in 2007-08 and $356.4 million in 2008-09. Compared to the funding provided under the bill (excluding cost saving measures), this would represent a decrease in costs of $1.2 million in 2007-08 and an increase in costs of $2.2 million in 2008-09. Therefore, under the bill, funding for child care could be adjusted so that funds were decreased by $1.2 million in 2007-08 and increased by $2.2 million in 2008-09.

12. These estimates are used in a separate budget paper that projects revenues and expenditures under the TANF program for the 2007-09 biennium. It should be noted that the child care funding numbers in that paper are even lower due to a higher reestimated subsidy savings, compared to the bill, relating to the provision to extend CNI grants from 12 weeks to 26 weeks.

Cost Saving Measures

13. Under the bill, as reestimated, there is a projected TANF deficit of $32.7 million at the end of 2008-09. Since projected child care program expenditures would make up almost all of total projected TANF expenditures over the biennium, the Committee could consider several alternatives to reduce the costs of the program. Generated savings could be used to replace other revenue sources, offset the structural deficit, or restore funding to other programs.

14. This paper discusses several options to reduce the projected costs of the direct child care program, including: (a) increasing copayments; (b) modifying reimbursement rates; (c) modifying income eligibility limits; (d) implementing waiting lists; or (e) some combination of (a) through (d). Alternatives to modify copayments and eligibility limits and to implement a waiting list assume an October 1, 2007, effective date in order to allow time to implement the modification. In addition, the Committee could reduce funding for county administration, contracted child care, or migrant child care.

15. It should be noted that the information on programs in other states, provided below, is based on data compiled by the National Women's Law Center in December, 2006. It is the most recent comprehensive information available. However, in response to growing child care costs, some states may have reduced eligibility limits and increased copayments from the levels indicated below.

16. A separate budget paper provides some additional options to reduce other TANF-related programs to generate savings to address the anticipated TANF deficit, to reduce other sources of funding for TANF-related programs, or to restore funding for other programs.

17. Finally, it should be noted that if no cost savings measures are implemented, compared to the bill, additional funding of $31.0 million in 2007-08 and $39.8 million in 2008-09 would be needed to fully fund Wisconsin Shares. These estimates do not include any savings from the provision to extend CNI grants. Table 3 shows the funding under SB 40, the reestimates without additional cost saving measures, and the additional funds needed.

TABLE 3

Comparison of Child Care Subsidy Costs Under SB 40 and Reestimates Without Additional Cost Savings Measures

	SB 40		Reestimate		Difference	
Current Law Estimate	$347,551,800	$354,152,000	$346,400,000	$356,400,000	-$1,151,800	$ 2,248,000
Cost Saving Measures						
Attendance-Based Payments	-$20,387,000	-$20,387,000	$0	$0	$20,387,000	$20,387,000
Changes to Income Eligibility	-1,836,600	-4,764,100	0	0	1,836,600	4,764,100
Increased Copayments	-3,538,600	-5,627,800	0	0	3,538,600	5,627,800
Implementation of a Waiting List	-6,359,700	-6,756,500	0	0	6,359,700	6,756,500
Total	-$32,121,900	-$37,535,400	$0	$0	$32,121,900	$37,535,400
Total Subsidies	$ 315,429,900	$ 316,616,600	$346,400,000	$356,400,000	$30,970,100	$39,783,400

a. Increase Copayments

18. The administration has requested a modification to decrease the amount of TANF funds to support the earned income tax credit by $7 million annually and to increase the amount of TANF funds for direct child care by $7 million annually. Part of the increase in direct child care funds would allow DWD to increase child care copayments by 2.8% annually, rather than by 7.0% in March, 2008, and by 3.1% in March, 2009. The 2.8% increases would more closely reflect anticipated inflation.

19. The revised child care estimates above include an inflationary increase for copayments. Therefore, with the modification requested by the administration, there would be no savings due to the increase in copayments.

20. Federal child care development block grant regulations require that copayments be affordable and help to ensure equal access to child care for low-income families. The rules indicate that copays that consume no more than 10% of a family's income will help ensure access.

21. Wisconsin's copayment schedule is currently structured so that copayments do not exceed 12.5% of a family's gross income.

22. Based on information compiled by the National Women's Law Center for all states and the District of Columbia, as of December, 2006, Wisconsin had the 24th highest copayment for families with incomes at 100% of the federal poverty level, with 26 states and the District of Columbia having lower copayments. For families with incomes at 150% of the federal poverty level, excluding one state in which copayments are set within ranges, Wisconsin's copayment

ranked 33rd, with eight states and the District of Columbia having lower copayments. In eight states (Georgia, Idaho, Indiana, Iowa, Michigan, Missouri, Montana, and Nebraska), a family with income at 150% of the federal poverty level was not eligible for a child care subsidy.

23. Table 4 below provides a comparison of copayment levels among Midwestern states for families at 100% of the federal poverty level and at 150% of the federal poverty level. The information is based on a family of three with one child in care. As shown in the table, Wisconsin's copayments, as a percent of income, tied with Illinois and Indiana for second highest among Midwestern states at 100% of the federal poverty level, and third highest at 150% of the federal poverty level, for those states where families were still eligible.

TABLE 4

Monthly Copayment Comparison for Midwestern States
Out-of-Pocket Child Care Costs as a Percent of Income

State	Families with Income at 100% of Federal Poverty Level	Families with Income at 150% of Federal Poverty Level
Illinois	5%	8%
Indiana	5	Ineligible
Iowa	1	Ineligible
Michigan	2	Ineligible
Minnesota	3	4
Ohio	7	9
Wisconsin	5	6

24. The Committee could consider increasing copayments under the child care subsidy program as a way to reduce costs of the program. An increase in the copayments of 15% per year over the current law copayment would generate an estimated savings of $4.6 million in 2007-08 and $6.5 million in 2008-09, for total savings of $11.1 million over the biennium. The maximum copayment would increase from 12.5% to 14.3% of a family's gross income.

25. Prior to March, 2000, the maximum copayment was structured so that it did not exceed 16% of a family's income. Therefore, increasing copayments by 15% would still result in lower copayments, as a percentage of gross income, than those that were in effect prior to March, 2000.

26. Alternatively, a copayment increase of 10% per year would generate estimated savings of $3.1 million in 2007-08 and $4.3 million in 2008-09, for a total savings of $7.4 million over the biennium. Under this alternative, the maximum copay would increase from 12.5% to 13.7% of a family's gross income. However, increasing copayments further could be viewed as inhibiting access to child care for low-income families.

b. Modify Reimbursement Rates

27. Reimbursement rates for providers were frozen in 2007. Therefore, child care providers that participate in Wisconsin Shares are reimbursed at the 2006 level. The bill assumes these rates will remain frozen over the 2007-09 biennium. In addition, DWD implemented a change to attendance policy, effective April 1, 2007. Wisconsin Shares no longer pays the child care provider for unexcused absences in child care when attendance is less than half the number of authorized hours per week for enrollment based authorizations. This change affects parents who have children in licensed family or group programs, or child care run by public schools and have enrollment based authorizations. SB 40 assumes savings of $20,387,000 annually.

28. From April, 2006, through September, 2006, DWD collected data from child care providers regarding the units of service authorized for child care and the units of service actually used. Based on this information, DWD determined that, during this six-month period, for families that used less than 50% of the units of service authorized, Wisconsin Shares paid subsidies of $10.2 million that were authorized, but not used, for annualized savings of $20.4 million.

29. However, the study performed by DWD did not take into consideration absences that would be excused or exempted. Exceptions to the attendance-based reimbursement policy include: (a) child is ill, but will return within six weeks; (b) special needs children; (c) parent is temporarily laid off, but will return to work within four weeks; (d) parent has a temporary break in approved activity, but will return to an approved activity within four weeks; (e) parent is on medical leave from employment, but will return within six weeks; (f) family is on vacation, but will return within two weeks; and (g) parent begins an approved activity within two weeks, but must pay provider in order to hold the child care slot until the activity date. DWD indicated that there was no way to calculate the impact of excused absences.

30. It is anticipated that the savings estimate of $20.4 million annually is optimistic. It is expected that many of the underused hours that have been authorized would fall into an excused absence. Initial results from the policy, provided by DWD, suggest that a more reasonable estimate of savings to the child care program would be $13.0 million per year. The first five weeks of the initiative have resulted in savings of $1.2 million.

31. In addition, child care providers find this initiative burdensome and have proposed an alternative to reducing payments to child care providers retroactively based on the attendance of the child. The Wisconsin Early Learning Coalition has proposed adjusting the authorizations, based on a history of underutilization, rather than adjusting the reimbursement after child care has been provided. The Coalition believes that child care providers would benefit from knowing in advance what the payment would be, even if it is lowered, rather than receiving a lower payment after the child care was already provided.

The Coalition has proposed the following: (a) that the child care computer system be programmed to track hourly usage of child care authorizations over a 12-week period and to automatically adjust authorizations where usage is consistently less than 50% of the authorized hours (less than 50% usage in each of the six consecutive two-week periods); (b) the authorization would be reduced to reflect actual usage, with an automated notice to the parent, child care provider, and the local caseworker, which would allow reasonable time for the child care provider to fill the vacant child care slot; (c) the adjustment would be to the highest usage during the 12-week review period; (d) authorizations could not be set at less than 20 hours per week; and (e) families could request adjustments in the authorizations if needed to meet their work requirements and would have a right to appeal.

32. However, DWD indicates that there would be one-time IT costs in the amount of $70,000 to implement the suggested changes, as well as additional costs for the new notices of authorized hours of child care. In addition, DWD states that the proposed savings could be as little as $1 million annually because authorizations would only be adjusted if usage fell below 50% in each of the six consecutive two-week periods during the 12-week review period, and the authorization would be based on actual usage during the highest-attended week, which could be full-time.

33. Another option would be to direct DWD to discontinue the attendance-based reimbursement policy. This would, however, require program adjustments elsewhere to address the loss of potential savings.

c. Income Eligibility Limits

34. Another option to reduce child care subsidy costs would be to impose more strict income eligibility limits. In Wisconsin, the initial income eligibility limit is set at 185% of the federal poverty level. Once eligible, a family can retain eligibility until its income exceeds 200% of the federal poverty level. Prior to March, 2000, the initial eligibility limit for child care subsidies was 165% of the federal poverty level.

35. SB 40 would change the initial threshold to 175% of the federal poverty level, and once eligible, the threshold would be 190% of the federal poverty level. SB 40 assumes savings of $1,836,600 in 2007-08 and $4,764,100 in 2008-09. Savings would be less in the first year, as participants in Wisconsin Shares on the effective date of the bill would continue to be eligible until the higher threshold of 200% of the federal poverty level is reached. During the second year, many of the participants who had been grandfathered in at the higher eligibility level would no longer participate in Wisconsin Shares, which would result in a greater savings to the program as new participants could only receive subsidies up to 190% of the federal poverty level.

36. Federal law requires that families who receive child care subsidies earn less than 85% of the state median income level. In Wisconsin, 85% of the state's median income level is $58,659 for a family of four for federal fiscal year 2006, which is approximately 284% of the federal poverty level.

37. Based on information compiled by the National Women's Law Center, as of December, 2006, excluding three states in which income eligibility is set within ranges, 17 states

and the District of Columbia had initial eligibility levels higher than 185% of the federal poverty level, only Wisconsin had income limits at 185% of the federal poverty level, and 29 states had income eligibility limits lower than 185% of the federal poverty level.

38. Table 5 below provides a comparison of the income eligibility levels for state child care subsidy programs for the Midwestern states based on information compiled by the National Women's Law Center. Wisconsin has the highest initial income eligibility threshold of the Midwestern states.

TABLE 5

Comparison of Initial Child Care Subsidy Program Eligibility Levels For Midwestern States (December, 2006)

State	Income Eligibility as a Percentage of the Federal Poverty Level
Illinois	183%
Indiana	123
Iowa	141
Michigan	144
Minnesota	170
Ohio	179
Wisconsin	185

39. If the initial income eligibility level were lowered back to 165% of the federal poverty level, with a higher threshold once eligible of 180% of the federal poverty level, it would generate estimated savings of $20.7 million in 2007-08 and $24.5 million in 2008-09, for total savings of $45.2 million over the biennium. However, an estimated 3,700 families in 2007-08 and 5,100 families in 2008-09 that would be anticipated to seek child care subsidies would not have access to the program. If the initial eligibility limit for child care subsidies were reduced to 180% of the federal poverty level, with a higher threshold of 195%, it would generate estimated savings of $7.5 million in 2007-08 and $9.7 million in 2008-09, for a savings of $17.2 million over the biennium. An estimated 1,500 families in 2007-08 and 2,000 families in 2008-09 that would be anticipated to seek subsidies would not have access to the program. Unlike the SB 40 provision, these options would not grandfather in families who currently participate in Wisconsin Shares.

40. It could be argued that income eligibility levels should not be decreased because doing so would heighten the affordability problems for families in the excluded income range.

d. Waiting Lists

41. Another option would be to reduce the amount of funding provided under the bill for the child care subsidy program by some amount, and require DWD to implement a waiting list for families with incomes above a certain threshold. Based on information compiled by the National

Women's Law Center, as of December, 2006, 18 states had statewide waiting lists for child care assistance or may have had waiting lists at the local level.

42. SB 40 would authorize a waiting list for parents eligible for child care subsidies who are not W-2 participants if DWD determines that the projected child care subsidy expenditures would exceed the amount budgeted. Estimated savings under SB 40 are $6,359,700 in 2007-08 and $6,756,500 in 2008-09. Savings from implementation of a waiting list are essentially amounts determined to balance the program, since it would be implemented to generate sufficient savings to fund the child care subsidy program within the amounts allocated under the budget bill.

43. Savings provided by a waiting list would depend on when the waiting list was implemented. Under SB 40, the waiting list would only be implemented if DWD determines that projected child care subsidies expenditures would exceed the amount budgeted. SB 40 assumes that a waiting list would have to be implemented such that $6.4 million in 2007-08 and $6.8 million in 2008-09 would not be expended for the child care program because funding for the Wisconsin Shares program, with other cost savings measures in place, would face a shortfall of $6.4 million in 2007-08 and $6.8 million in 2008-09.

e. ***Information Technology***

44. SB 40 provides $287,000 FED in 2007-08 and $88,800 FED in 2008-09 to increase funding for IT changes to accommodate the cost saving measures to the child care subsidy program.

45. The Committee could reduce or eliminate funding for IT changes depending on which cost saving measures, if any, are adopted.

Combinations of Alternatives

46. The options described above could be combined in numerous ways to reduce projected direct child care program costs over the biennium. However, the projected savings associated with the alternatives cannot be added together to produce combinations of alternatives because the variables interact. One option is discussed below and other options could be estimated for the Committee. As noted above, most options assume an October 1, 2007, effective date to allow DWD time to make the necessary programmatic and computer system changes.

47. One option would be to increase copays by 10% per year over the current law amount, allow no growth for reimbursement rates, and change income eligibility to 175% of the federal poverty level, with a higher threshold of 190% of the federal poverty level, and no waiting list. Under this alternative, participating families would be required to contribute up to 13.7% of their gross incomes, compared to 12.5% under current law. An estimated 2,100 families in 2007-08 and 2,900 families in 2008-09 would not have access to the program. Estimated savings generated under this option would be $13.8 million in 2007-08 and $17.7 million in 2008-09, for total projected savings over the biennium of $31.5 million. This alternative assumes that families would not be grandfathered in for income eligibility changes.

County Administration, On-site Child Care, and Migrant Care

County Administration

48. The direct child care program includes funding for county administration, on-site child care at job centers and counties, and migrant child care. According to DWD, the expected expenditures for these activities in 2006-07 total $18,140,500: (a) $15,004,000 for county administration; (b) $2,587,900 for on-site child care; and (c) $548,600 for migrant child care. However, 2005 Act 25 budgeted $16,032,100 annually for these activities: (a) $13,509,800 for county administration; (b) $1,973,700 for on-site child care; and (c) $548,600 for migrant child care. SB 40 would provide $18,290,000 annually for these activities: (a) $15,233,000 for county administration; (b) $2,508,000 for on-site child care; and (c) $549,000 for migrant child care.

49. County agencies and W-2 agencies share in the administration of the child care subsidy program at the local level. The W-2 agency expenditures are built into the W-2 contracts. W-2 agencies are primarily responsible for determining eligibility for child care subsidies. They also may assist in locating child care. Once eligibility is determined, the county agency is responsible for determining the number of child care hours authorized, copayment amounts, and arranging for payments to the child care providers. In addition, counties certify Level 1 and Level 2 day care providers that are not licensed by the state. Counties may also assist individuals in locating appropriate care. In many cases, the W-2 agency is the county agency. However, DWD contracts with counties separately under the direct child care program to perform these duties.

50. The Committee could reduce the amounts available for county administration to $13,509,800 annually to reflect the amount budgeted under 2005 Act 25, for a reduction of $1,723,200 annually. However, counties could increase property tax levies to offset the decrease in state funding for administrative costs related to Wisconsin Shares. Therefore, the Committee may not wish to further burden counties with reduced funding for administration of the child care program.

On-Site Child Care

51. DWD currently contracts with W-2 agencies and counties for on-site child care at the agencies and job centers. As noted above, under SB 40, $2,508,000 per year is budgeted for these contracts.

52. On-site child care is typically provided on an hourly basis while parents are attending meetings with caseworkers, participating in training and education, or using other agency resources. According to DWD, the contract amounts are generally based on projected child care usage and the county reimbursement rates. Providers are reimbursed at levels consistent with requiring a copayment. However, parents are not required to pay a copayment.

53. According to DWD, for calendar year 2006, the agency contracted for 502 on-site child care slots at 20 sites. DWD officials indicate that this number of contracted slots served 18,642 families and 27,411 children.

54. The Committee could reduce on-site contracts as a way to fund other child care programs. Since the contracts only fund care at 20 sites, the on-site services have limited impact compared to the subsidy program itself and other indirect child care programs, which provide statewide benefits. The Committee could reduce funding by half or by $1,254,000 per year, or the Committee could reduce on-site child care funding by $534,300 per year to reflect the same funding budgeted under 2005 Act 25.

55. The Committee could also eliminate on-site child care at job centers and W-2 agencies entirely, for savings of $2,508,000 annually. However, W-2 participants who are not able to access child care may be exempted from required W-2 activities. According to W-2 managers, on-site child care virtually eliminates "good cause" exemptions for individuals who would otherwise have difficulty finding child care for the time spent in W-2 training and education activities or caseworker meetings. In addition, as noted above, because only 20 agencies participate, the services have limited statewide impact. However, six of the 20 sites are in Milwaukee County, where an estimated 75% of the W-2 caseload resides. In addition, 2005 Act 25 reduced funding for on-site child care by $1,000,0000 annually, while the number of slots contracted for increased from 334 in 2004 to 502 in 2006.

Migrant Child Care

56. Migrant child care services are provided under contract with the United Migrant Opportunity Services (UMOS) agency. The UMOS migrant child care services program is administered in Oshkosh. However, the UMOS office in Milwaukee provides fiscal management for the program. Under the program, child care services are provided in 22 counties. Parents are required to make copayments. Child care is provided only to parents who meet the definition of migrant, transitional, or seasonal workers. In the event that families become permanent residents, they are expected to apply for the Wisconsin Shares program. According to DWD, for calendar year 2006, the number of children served was 394. The maximum number of children served at any one time was 141.

57. The Committee could eliminate funding for migrant care services. However, 2005 Act 25 reduced funding for migrant care services by $347,000 annually. The maximum number of children served at any one time was reduced by half, from 298 to 141. In addition, the reduction in funding could cause migrant care services to be discontinued entirely in some of the 22 counties. Some of these families could seek services through the state Wisconsin Shares program, which would offset savings from eliminating or reducing the contracts. Also, according to DWD, county offices do not necessarily have bilingual staff and are not equipped to deal with issues concerning migrant child care. Further, if the services were eliminated, DWD staff have indicated that many of the migrant workers could leave their children behind in migrant camps or take them to worksites, neither of which would be beneficial to the children. Therefore, the Committee may not want to reduce or eliminate the migrant child care funding.

ALTERNATIVES TO BILL

The following alternatives do not show changes to base level funding because these amounts would vary depending on all of the alternatives chosen.

A. Reestimated Costs and Savings

1. Modify the Governor's recommendation to reduce funding for child care by $1,200,000 FED in 2007-08 and increase funding for child care by $2,200,000 FED in 2008-09 to fully fund the reestimated costs of child care subsidies for 2007-09 under current law.

ALT A1	Change to Bill Funding
FED	$1,000,000

2. In addition to Alternative A1, modify the Governor's recommendation to continue the implementation of attendance-based reimbursements for providers by reducing the estimated savings to $13,000,000 annually. Provide additional funding of $7,387,000 FED annually to offset the reduction in estimated savings.

ALT A2	Change to Bill Funding
FED	$14,774,000

3. Approve the Governor's request to reduce TANF funding for the earned income tax credit by $7,000,000 FED annually and increase funding for the child care subsidy program by $7,000,000 FED annually. The Governor's intent is to use additional TANF funding to eliminate the increase in copayments under SB 40. Any additional funds would be used to eliminate or delay implementation of a waiting list.

ALT A3 EITC	Change to Bill Funding
GPR	$14,000,000
PR	- 14,000,000
Total	$0

B. Modify Governor's Provisions

1. Delete the Governor's provision to reduce initial income eligibility to 175% of the federal poverty level, with a higher threshold of 195% of the federal poverty level. Increase funding by $1,836,600 FED in 2007-08 and $4,764,100 FED in 2008-09 to offset the estimated savings.

ALT B1	Change to Bill Funding
FED	$6,600,700

2. Direct DWD to not implement attendance-based reimbursements and increase funding by $20,387,000 FED annually to offset the estimated savings under the bill.

ALT B2	Change to Bill Funding
FED	$40,774,000

3. Delete the Governor's provision to authorize DWD to implement a waiting list for non-W-2 participants and increase funding by $6,359,700 FED in 2007-08 and $6,756,500 FED in 2008-09 to offset the estimated savings under the bill.

ALT B3	Change to Bill Funding
FED	$13,116,200

4. Direct DWD to increase copayment amounts no more than 2.8% per year and increase funding by $3,538,600 in 2007-08 and $5,627,800 in 2008-09 to offset the estimated savings under the bill.

ALT B4	Change to Bill Funding
FED	$9,166,400

C. Other Options to Reduce Child Care Subsidy Costs

1. Make one or more of the following modifications to the direct child care program to reduce projected costs. Costs for each option are not included because they will vary depending on the specific combination chosen.

a. Increase copayments.

b. Limit initial income eligibility to a level below 185% of the federal poverty level.

c. Require DWD to implement a waiting list for participants with incomes above a certain poverty level.

d. Reduce funding for county administration, on-site child care, or migrant care.

D. Other Funding

1. Provide GPR funding to reduce or eliminate the child care deficit.

Prepared by: Kim Swissdorf
Attachment

ATTACHMENT 1

Child Care Copayment Schedule March 11, 2007*

	Gross Monthly Income by Family Size									Weekly Copay Requirement: Children in Licensed Care					Weekly Copay Requirement: Children in Certified Care				
FPL	2	3	4	5	6	7	8	9	10+	1	2	3	4	5+	1	2	3	4	5+
70%	$799	$1,002	$1,205	$1,408	$1,611	$1,814	$2,017	$2,220	$2,423	$5	$9	$14	$18	$24	$3	$7	$11	$13	$17
75	856	1,073	1,291	1,508	1,726	1,943	2,161	2,378	2,596	5	12	17	22	27	4	8	12	16	18
80	913	1,145	1,377	1,609	1,841	2,073	2,305	2,537	2,769	8	13	18	25	30	6	9	13	18	21
85	970	1,216	1,463	1,709	1,956	2,202	2,449	2,695	2,942	12	17	22	27	35	8	12	16	20	23
90	1,027	1,288	1,549	1,810	2,071	2,332	2,593	2,854	3,115	13	21	27	34	40	9	14	18	23	29
95	1,084	1,359	1,635	1,910	2,186	2,461	2,737	3,012	3,288	17	25	33	40	46	12	17	22	27	34
100	1,141	1,431	1,721	2,011	2,301	2,591	2,881	3,171	3,461	19	27	35	45	52	13	18	24	30	36
105	1,198	1,502	1,807	2,111	2,416	2,720	3,025	3,329	3,634	22	30	39	47	55	16	21	26	32	39
110	1,255	1,574	1,893	2,212	2,531	2,850	3,169	3,488	3,807	25	34	41	50	57	17	23	28	34	41
115	1,312	1,645	1,979	2,312	2,646	2,979	3,313	3,646	3,980	27	35	44	52	60	19	25	31	37	43
120	1,369	1,717	2,065	2,413	2,761	3,109	3,457	3,805	4,153	30	39	47	55	64	21	28	33	39	44
125	1,426	1,789	2,151	2,514	2,876	3,239	3,601	3,964	4,326	34	42	50	59	68	23	29	36	40	48
130	1,483	1,860	2,237	2,614	2,991	3,368	3,745	4,122	4,499	35	46	55	65	74	25	31	39	45	52
135	1,540	1,932	2,323	2,715	3,106	3,498	3,889	4,281	4,672	39	49	60	71	81	27	34	42	50	56
140	1,597	2,003	2,409	2,815	3,221	3,627	4,033	4,439	4,845	41	52	64	74	86	29	36	45	52	60
145	1,654	2,075	2,495	2,916	3,336	3,757	4,177	4,598	5,018	44	55	65	77	88	31	39	46	55	61
150	1,711	2,146	2,581	3,016	3,451	3,886	4,321	4,756	5,191	47	57	69	79	92	32	40	48	56	64
155	1,768	2,218	2,667	3,117	3,566	4,016	4,465	4,915	5,364	49	60	71	82	94	34	43	49	58	65
160	1,825	2,289	2,753	3,217	3,681	4,145	4,609	5,073	5,537	52	64	74	86	97	36	44	52	60	68
165	1,882	2,361	2,839	3,318	3,796	4,275	4,753	5,232	5,710	53	65	77	87	99	38	45	55	61	69
170	1,939	2,432	2,925	3,418	3,911	4,404	4,897	5,390	5,883	54	69	80	92	102	39	48	56	64	71
175	1,996	2,504	3,011	3,519	4,026	4,534	5,041	5,549	6,056	56	71	82	94	104	40	49	57	65	73
180	2,054	2,576	3,098	3,620	4,142	4,664	5,186	5,708	6,230	59	73	86	97	107	41	52	60	68	76
185	2,111	2,647	3,184	3,720	4,257	4,793	5,330	5,866	6,403	60	75	88	99	110	42	55	61	69	77
190	2,168	2,719	3,270	3,821	4,372	4,923	5,474	6,025	6,576	61	77	91	101	112	44	56	64	71	80
195	2,225	2,790	3,356	3,921	4,487	5,052	5,618	6,183	6,749	64	79	94	104	116	44	58	65	74	81
200	2,282	2,862	3,442	4,022	4,602	5,182	5,762	6,342	6,922	65	81	96	107	118	45	60	68	75	82

Look down the column of the appropriate family size until locating the gross monthly family income level or just less than the family income. Look to the right to find the co-pay.

* Non-court ordered kinship care parents and teen parents who are not Learnfare participants are subject to the minimum copay, which is found by selecting the lowest income line (70% FPL) and then finding the copayment listed, under either licensed care or certified care, for the appropriate number of children. Parents who have left a W-2 employment position for unsubsidized work also qualify for the minimum copay for one month. Children who are authorized for 20 hours or less are subject to one-half of their share of the family copay listed above. Foster care and kinship care parents who have court-ordered placement of a child, as well as Learnfare and Food Stamp Employment and Training participants, are not subject to copay requirements.

Source: Department of Workforce Development


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May 22, 2007 | Joint Committee on Finance | Paper #892

Quality Rating System for Child Care Providers (DWD – Economic Support and Child Care)

Bill Agency

[LFB 2007-09 Budget Summary: Page 614, #10]

CURRENT LAW

The Department of Health and Family Services (DHFS) may license a person to operate a day care center, and no person may provide care and supervision for four or more children under the age of seven for less than 24 hours a day unless the person obtains a license to operate a day care center. In addition, a county department of human services or social services may certify a day care provider for reimbursement under the Wisconsin Works (W-2) Wisconsin Shares program (the child care subsidy program), which is administered by the Department of Workforce Development (DWD), and a school board may establish or contract for the provision of day care programs for children. Child care providers must meet minimum standards and requirements to be licensed or certified, but the providers are not rated as to the quality of the services they provide in relation to each other.

GOVERNOR

Provide $1,627,500 FED in 2007-08 and $1,199,800 FED in 2008-09 to establish a child care quality rating system. Of these amounts, $436,200 FED in 2007-08 and $444,900 FED in 2008-09 would be transferred from DWD to DHFS as program revenue service (PR-S) funds to support 6.0 FTE in DHFS's Bureau of Regulation and Licensing to implement the quality rating system, and $1,191,300 FED in 2007-08 and $754,900 FED in 2008-09 would fund a quality rating computer system in DWD. Federal funds for the quality rating system are from the child care development block grant.

The bill would require the quality rating system to include licensed child care providers that receive reimbursement from the Wisconsin Shares program and any other licensed child care providers that volunteer to be rated. The bill would require quality ratings to be completed by June 30, 2009, for all child care providers that are licensed and are receiving reimbursement under the Wisconsin Shares program on that date. Finally, the bill would require DWD to make the rating information available to parents, guardians, and legal custodians of children who are recipients, or prospective recipients, of care and supervision from a child care provider that is rated under the system, and DWD would have to provide this information on its Internet site.

DISCUSSION POINTS

1. In June, 2004, the Governor established a task force, the Quality Counts for Kids Task Force, to develop a program that would rate the quality of child care providers, guide parents in choosing a child care provider for their children, and reimburse child care providers through the Wisconsin Shares program based on their quality rating. The task force examined national research and experiences in other states to develop a potential quality rating system. The Quality Counts for Kids Task Force recommended a tiered reimbursement system and a quality rating system.

2. In tiered reimbursement systems, states provide higher rates of pay for child care providers that participate in subsidy programs and achieve one or more levels of quality beyond basic licensing requirements. In a quality rating system, the state develops and markets a quality rating indicator for use as a child care consumer guide, sometimes referred to as a "report card."

3. Under the Governor's proposed 2005-07 biennial budget, both a quality rating system and a tiered reimbursement system were included. The quality rating system would have assessed a rating to the child care provided by a state licensed or certified child care provider or provided by a day care program established or contracted for by a school board, based on a five-star system. Participation in the quality rating system would have been mandatory for providers that received reimbursement from Wisconsin Shares. For child care providers that participated in Wisconsin Shares, reimbursement for child care provided would depend on the provider's quality rating. However, the Legislature deleted both of these provisions.

4. Under SB 40, the Governor includes a provision for the quality rating system. Participation in the quality rating system would be mandatory for licensed child care providers that receive reimbursement from Wisconsin Shares. Licensed providers that do not receive reimbursement from Wisconsin Shares could volunteer to be rated. The quality rating system would not apply to certified child care providers.

5. According to the National Child Care Information Center (NCCIC), quality rating systems are a method to assess, improve, and communicate the level of quality in early care and education settings. Quality rating systems consist of the following five elements: (a) standards that are based on the foundation of compliance with the state's child care licensing regulations and two or more levels of quality criteria above basic licensing requirements; (b) accountability, through

appropriate means of assessment and monitoring, for compliance with the specific criteria of the standards; (c) program and practitioner outreach and support, including efforts to promote participation in the quality rating system, as well as technical assistance, training, mentoring, and other supports; (d) financing incentives specifically linked to compliance with quality standards, such as quality bonus payments, tiered reimbursement rates, contracts, quality grants, and wage supplements; and (e) parent education designed to ensure that parents understand the quality rating system and how it benefits children, families, and the early care and education system as a whole, including a five-star system.

6. According to the NCCIC, as of March, 2006, 13 states and the District of Columbia had a quality rating system with multiple levels available throughout the state: Colorado, Iowa, Kentucky, Maryland, Montana, New Hampshire, New Mexico, North Carolina, Ohio, Oklahoma, Pennsylvania, Tennessee, and Vermont.

7. Evaluations of the effects of quality rating systems on the quality of child care provided have been mixed. In Kentucky, a 2004 evaluation indicated that child care programs in child care centers decreased in quality, and overall participation in the rating system decreased. However, for providers who participated in the quality rating system, quality increased. The evaluation also noted urban and rural differences in the way child care providers participate in and perceive the benefits of the system. Rural child care providers rated the program more favorably. Kentucky's KIDS NOW quality rating system is a four-star, voluntary system.

8. Evaluations in other states show that participation in a quality rating system improves the quality of child care provided over time. In Oklahoma, 76.5% of children whose care is subsidized by the state received child care in two- or three-star rated facilities, up from 45.8% two years prior. Oklahoma's Reaching for the Stars quality rating system is a three-star system. Evaluations in Pennsylvania and Tennessee also concluded that child care quality improved as child care providers participated in and moved up the rating scale in their quality rating systems.

9. Under the Governor's proposal, the quality rating system would include only licensed child care providers, provide a five-star scale using child care quality indicators to determine the number of stars, build on the foundation of current child care regulation, and award star levels based on the total number of points earned from a 30-point quality indicator system. The quality rating system would be mandatory only for licensed child care providers that participate in Wisconsin Shares. The quality rating system would be voluntary for all other licensed child care providers. The quality rating system would not include certified child care providers. There are approximately 5,700 licensed child care providers. Of these, approximately 5,300 currently participate in Wisconsin Shares.

10. The quality rating system would have three categories of quality indicators for licensed child care providers, and each category would have a maximum number of points that could be awarded. The quality indicators include: (a) teacher/director qualifications (maximum of 14 points); (b) learning environment and curriculum (maximum of 10 points); and (c) professional practices (maximum of six points).

11. Although initial information had been provided to show how the points would be allocated for each category of quality indicators for both child care centers and for family child care programs, DWD indicates that specific criteria within each main category to earn the maximum number of points available will be revised as necessary as determined by the Grow in Quality pilot project. The pilot project is being conducted with 70 randomly selected licensed group centers in four distinct pilot program areas of the state to identify key indicators of child care quality and to begin the process of designing technical assistance specific to these quality indicators.

The purposes of the Grow in Quality pilot project are to: (a) design and test an efficient, accurate, and effective instrument that can be used reliably by trained observers to assess key quality indicators, including classroom environments and business practices, within early care and education settings statewide; and (b) use the information gathered from the assessments, in collaboration with early care and education program directors, to develop meaningful plans for program improvement, to implement specified amounts and types of technical assistance, and to assess the impact of technical assistance on key quality indicators.

Classroom environments will be assessed in: (a) health, safety, and physical development; (b) social and emotional development; (c) language, literacy, and writing; and (d) math, science, and child assessments. Business practices will be assessed in: (a) staff development; (b) business management; and (c) family involvement. Data from these assessments will be used to determine the next steps for developing a statewide quality indicator project approach. It is anticipated that the data will be available for evaluation in the summer of 2007.

12. Under the Governor's proposed quality rating system, both child care centers and family child care programs would be rated on a five-star scale as follows: (a) one star for being licensed and out of compliance with regulatory standards; (b) two stars if the center or program is licensed, meets the standards for regulatory compliance, and scores between zero and four points; (c) three stars if the center or program is licensed, meets the standards for regulatory compliance, and scores between five and 12 points; (d) four stars if the center or program is licensed, meets the standards for regulatory compliance, and scores between 13 and 22 points; and (e) five stars if the center or program is licensed, meets the standards for regulatory compliance, and scores between 23 and 30 points. As noted, it is unknown how these points would be awarded until specific criteria result from the Grow in Quality pilot project. However, DWD indicated that the initial distribution of licensed child care providers would likely be as follows: (a) 15% would receive one star; (b) 20% would receive two stars; (c) 38% would receive three stars; (d) 22% would receive four stars; and (e) 5% would receive five stars. It is anticipated that the percentages of four star and five star licensed child care providers would increase as the providers improve in quality over time.

13. The Quality Counts for Kids Task Force also indicated that a fully-automated data system would be essential for the operation of the quality rating system. The task force suggested building on existing information technology systems, although funding would be required to expand these systems to accommodate the quality rating information.

14. Under the bill, funding of $1,627,500 FED in 2007-08 and $1,199,800 FED in 2008-

09 would be used for: (a) 6.0 FTE in DHFS to assess licensed child care providers and assign a star rating ($436,200 FED in 2007-08 and $444,900 FED in 2008-09); and (b) the creation, implementation, and maintenance of a computer system in DWD to manage and display the quality rating information ($1,191,300 FED in 2007-08 and $754,900 FED in 2008-09).

Assessments

15. Funding of $436,200 FED in 2007-08 and $444,900 FED in 2008-09 and 6.0 FTE positions, beginning in 2007-08, would be for assessments. The 6.0 FTE positions would be added to DHFS's Bureau of Regulation and Licensing staff to perform approximately 5,500 assessments every two years for licensed child care providers that participate in Wisconsin Shares (5,300) and for other licensed child care providers that volunteer to participate in the quality rating system (estimated at 200).

16. DWD indicates that it takes an average of four hours to do a quality rating assessment. A total of 11,000 hours annually would be needed to perform 5,500 assessments every two years. DWD assumes that 1.0 FTE could work 1,880 hours annually after considering vacation, holidays, and other time off. Therefore, 6.0 FTE would be needed to perform 11,000 hours of assessments annually. SB 40 would provide $72,700 in 2007-08 per employee and $74,100 in 2008-09 per employee. These funds would support $49,700 in 2007-08 and $50,700 in 2008-09 for salaries and $23,000 in 2007-08 and $23,400 in 2008-09 for fringe benefits.

17. Instead of using assessments, another option would be for child care providers to provide information related to the quality indicators during the current licensing process. Several states with quality rating systems do not perform on-site assessments. Instead, a paper assessment of self-reported information regarding the criteria that would be established after the results are obtained from the Grow in Quality pilot project could be performed. DHFS staff could rate child care providers based on paper assessments rather than on-site visits. Assuming that one hour would be sufficient time to provide ratings based on paper assessments, only 2.0 FTE would be needed for a total of $145,400 in 2007-08 and $148,300 in 2008-09. Therefore, the Committee could reduce funding by $290,800 in 2007-08 and $296,600 in 2008-09 and reduce positions by 4.0 FTE, beginning in 2007-08.

18. However, self-reported information may not be as accurate or objective. To accurately reflect the quality of a child care provider, it may be better to have an on-site visit by an objective observer.

Information Technology

19. The bill provides $1,191,300 FED in 2007-08 and $754,900 FED in 2008-09 to create, implement, and maintain a computer system to manage and display the quality rating information. The administration indicates that the higher cost of $1.2 million in the first year is to create and implement the system, while ongoing costs for maintenance in subsequent years would be less.

20. Information technology costs would include: (a) incorporating the rating system in existing DWD computer systems, including DWD's child care statewide administration on the web (CSAW) system; (b) building interfaces with other child care organizations and agencies; (c) creating a public website to assist parents; (d) developing software to perform the assessments; and (e) building a common system for both licensed and certified child care providers.

21. The Committee could eliminate funding for a computer system to manage and display the quality rating information for child care providers. However, without funding, it could make assessments more difficult. The assessments would have to be done on paper, rather than with a computer program to centrally compile the results. The assessors would be required to access existing data, such as staff credentials and participation in food programs, through many sources, rather than through one central source. Also, it could be difficult to publish the ratings in a format that would be easy for consumers to understand and use once the providers are assessed without funding to create a separate website for this purpose.

22. In addition, DWD indicates that maintaining a provider database with associated ratings, as well as a public website that displays the data, is an essential part of the rating system. Information technology system interfaces with other agencies that already have data that would be used for rating providers, such as the Registry and the Department of Public Instruction, would be key to providing accurate assessments of providers.

23. Finally, the Committee could eliminate the provision related to the quality rating system. Under current law, child care providers are regulated through licensing or certification. In addition, although child care providers are not currently comparatively rated, parents can obtain information regarding child care providers through the child care information center and child care resource and referral services.

ALTERNATIVES TO BILL

A. Assessments

1. Adopt the Governor's recommendation to establish a quality rating system and provide $436,200 FED in 2007-08 and $444,900 FED in 2008-09 and 6.0 FTE positions in DHFS, beginning in 2007-08, for assessments of child care providers to assign a star rating.

ALT A1-DWD	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
FED	$0	0.00	$881,100	0.00

ALT A1-DHFS	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
PR	$0	0.00	$881,100	6.00

2. Modify the Governor's recommendation to reduce funding for assessments by $290,800 in 2007-08 and $296,600 in 2008-09 and reduce positions in DHFS by 4.0 FTE, beginning in 2007-08.

ALT A2-DWD	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
FED	- $587,400	0.00	$293,700	0.00

ALT A2-DHFS	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
PR	- $587,400	- 4.00	$293,700	2.00

3. Delete funding and positions for assessments of child care providers.

ALT A3-DWD	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
FED	- $881,100	0.00	$0	0.00

ALT A3-DHFS	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
PR	- $881,100	- 6.00	$0	0.00

B. Information Technology

1. Adopt the Governor's proposal to establish a quality rating system and provide $1,191,300 FED in 2007-08 and $754,900 FED in 2008-09 in DWD to create, implement, and maintain a computer system to manage and display the quality rating information.

ALT B1	Change to Bill	Change to Base
	Funding	Funding
FED	$0	$1,946,200

2. Delete funding for the creation, implementation, and maintenance of a computer system to manage and display the quality rating system.

ALT B2	Change to Bill	Change to Base
	Funding	Funding
FED	- $1,946,200	$0

C. Delete Entire Quality Rating Proposal

1. Delete the entire proposal related to the quality rating system.

ALT C1-DWD	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
FED	- $2,827,300	0.00	$0	0.00

ALT C1-DWD	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
PR	- $2,827,300	- 6.00	$0	0.00

Prepared by: Kim Swissdorf


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Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

March 25, 2009

TO: Senator Robert Jauch
Room 118 South, State Capitol

FROM: Bob Lang, Director

SUBJECT: 2009-11 and 2011-13 General Fund Budget Under 2009 Assembly Bill 75

At your request, this memorandum provides information on the condition of the general fund for the 2009-11 and 2011-13 biennia under the 2009-11 executive budget bill (AB 75). The 2011-13 portion of the memorandum reflects provisions of AB 75 and funding commitments contained in current law. It should be noted that the figures shown throughout this memorandum are in millions. Table 1 displays the 2009-11 general fund condition statement of AB 75.

TABLE 1

General Fund Condition Statement

	2009-10	2010-11
Revenues		
Opening Balance, July 1	$216	$237
Estimated Taxes	12,845	13,376
Departmental Revenues		
Tribal Gaming Revenues	27	31
Other	562	573
Total Available	$13,650	$14,217
Appropriations and Reserves		
Gross Appropriations	$13,702	$14,230
Compensation Reserves	47	96
Less Lapses	-336	-378
Net Appropriations	$13,413	$13,948
Balances		
Gross Balance	$237	$269
Less Required Statutory Balance	-65	-130
Net Balance, June 30	$172	$139

As shown in Table 1, the gross balance at the end of the 2009-11 biennium is estimated to be $269 million. AB 75 would set the required statutory balance at $130 million for 2010-11. Thus, the net balance at the end of the biennium would be $139 million.

Structural Balance

The structure of the budget is typically referred to as the relationship between revenues and appropriations in a given fiscal year. For example, if revenues raised in a fiscal year exceed appropriations, the budget is deemed to be in structural balance. Imbalance occurs when appropriations exceed revenues for a fiscal period.

In analyzing the structure of the state's budget, attention usually focuses on the second year of the biennium. This is because the next biennial budget is based upon the second year, or "base year" of the previous biennium. Table 2 focuses only on the 2010-11 fiscal year.

TABLE 2

2010-11 General Fund Condition Statement

Opening Balance	$237
Revenues (Taxes and Departmental Revenues)	13,980
Total Available	$14,217
Net Appropriations	$13,948
Gross Balance	$269

Table 3 addresses the structure of the general fund budget. To do so, only the revenues, net appropriations, and the difference between the two is shown. Thus, Table 3 ignores the opening balance and focuses only on the revenues and net appropriations for the 12 months of the fiscal year.

TABLE 3

2010-11 Fiscal Year Balance of Revenues and Expenditures

Revenues	$13,980
Net Appropriations	13,948
Difference	$32

Table 3 indicates that revenues exceed net appropriations by $32 million. Thus, the structure of the general fund shows a balance of $32 million. The $32 million becomes $269 million when the $237 million opening balance is considered. However, Table 3 focuses only on the revenues and net appropriations of the 12-month period (July, 2010, through June, 2011).

2011-13 General Fund Commitments

Table 4 shows estimated 2011-13 general fund commitments. This table reflects estimated increases or decreases of various items for each year of the 2011-13 biennium as a change to base year (2010-11) revenues and net appropriations.

TABLE 4

2011-13 General Fund Commitments
(2009 Assembly Bill 75 and Current Law)
(In Millions)

	2011-12	2012-13
Revenues (Taxes and Departmental Revenues)		
2010-11 Base Revenues	$13,980	$13,980
Modifications to Base		
Restore estate tax in 2011	$94	$125
Reduction in Menasha refunds	8	17
Combined reporting/add backs	23	2
Airport development zones	1	2
Sunset livestock farm investment credit	0	2
Health insurance premiums deduction	-87	-87
2009 AB 75 lapse/transfer	-80	-80
2009 Act 2 lapse/transfer	-43	-43
Capital gains deferral on QNBVs	-14	-14
Expand angel investment tax credit	-13	-13
Sales tax exemption for biotechnology	-5	-10
Electronic medical records credit	-5	-10
Expand early stage seed credit	-6	-6
R&D credit	-5	-5
Child/dependent care deduction	-3	-6
IRC update	3	-3
AgChem transfers	-1	-2
Subtotal -- Modifications	-$133	-$131
Total	$13,847	$13,849
Net Appropriations		
2010-11 Base	$13,948	$13,948
Modifications to Base		
Medical assistance base -- replace enhanced FMAP	$292	$292
SeniorCare base -- replace enhanced FMAP	3	3
General school aids -- replace ~~stimulus funds~~	221	221
Debt service increases	60	63
Delete commercial paper lapses	57	57
Shared revenue -- replace stimulus funds	50	50
Delete covenant lapse	25	25
Child care -- replace stimulus funds	15	15
Child support incentive match payment	9	9
Jobs tax credit	5	10
Foster care and adoption assistance -- replace enhanced FMAP	5	3
Student financial aid	4	8
Female inmate treatment center	3	3
Index homestead tax credit	1	2
Beginning farmer credit	1	1
Subtotal -- Modifications	$751	$762
Total	$14,699	$14,710

Cover 75? stimulus.

As shown above, Table 4 includes additional revenues of $94 million in 2011-12 and $125 million in 2012-13 related to restoration of the estate tax for deaths occurring on or after January 1, 2011. This assumes that the current federal estate tax provisions, which will restore the federal credit for state death taxes beginning in 2011, will not be modified. If federal law is modified to retain the current deduction (rather than credit) for state death taxes, or to permanently eliminate the federal estate tax, these additional state revenues would not be realized.

Table 5 places the figures from Table 4 into condition statement format for the 2011-13 biennium. It is important to note that the amounts shown in Tables 4 and 5 represent current law commitments and the provisions of AB 75. No assumptions are made about growth in caseload and population estimates or for such items as state employee compensation in the 2011-13 biennium. Also, the figures in Table 5 are displayed for the purpose of examining base revenues and appropriations, adjusted for 2011-13 commitments. The table does not reflect any potential revenue growth or other appropriation changes.

TABLE 5

2011-13 General Fund Condition Statement

	2011-12	2012-13
Opening Balance	$269	$130
Revenues	13,847	13,849
Total Available	$14,116	$13,979
Net Appropriations	$14,699	$14,710
Required Statutory Balance*	130	130
Total	$14,829	$14,840
Amount Needed	$713	$861

*For 2011-12 and 2012-13, AB 75 would set the required statutory balance at $130 million.

Table 5 shows that, for 2011-12, the general fund would need to generate $713 million in order to meet current commitments and those of AB 75, maintain the required statutory balance, and balance the budget for that year. In 2012-13, $861 million ($148 million over the $713 million in 2011-12) would need to be realized. These amounts could be generated by revenue increases (growth or tax increases), appropriation reductions, or some combination of the two.

Over the past several biennia, this office has prepared information that estimates the general fund amount necessary in each year of the ensuing biennium to produce a balanced budget. Similar to the exercise in this memorandum, the amounts were calculated by comparing base year revenue and expenditure amounts, adjusted for fiscal commitments that had been made that will affect the next biennium.

The following table lists the estimated general fund amounts necessary to produce a balanced budget for 2011-13 and the seven preceding biennia. The figures for the 1997-99 through 2009-11 biennia were typically prepared at the conclusion of each legislative session.

TABLE 6

General Fund Amounts Necessary for a Balanced Budget

	In Millions	
	1st Year	2nd Year
For the 2011-13 Biennium (Governor)	$713	$861
For the 2009-11 Biennium	800	882
For the 2007-09 Biennium	653	846
For the 2005-07 Biennium	701	845
For the 2003-05 Biennium	1,340	1,527
For the 2001-03 Biennium	693	1,026
For the 1999-01 Biennium	589	914
For the 1997-99 Biennium	624	908

If you have questions regarding this memorandum, please feel free to contact me.

BL/sas


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Summary of Budget Adjustment Provisions

2009 Wisconsin Act 2

Legislative Fiscal Bureau

February 23, 2009

It is also possible that the act, along with similar laws in other states, could result in a significant increase in sales and use tax collections from remote sales in future years. This could occur if the provisions resulted in additional retailers voluntarily agreeing to collect and remit use taxes to Wisconsin or if Congress were persuaded to pass federal legislation allowing states to require out-of-state sellers to collect and remit the tax.

[Act 2 Sections: 16, 41, 71, 73, 106 thru 108, 154 thru 156, 198 thru 200, 215 thru 218, 221, 225, 227 thru 239, 244 thru 250, 252 thru 299, 301 thru 329, 331, 333 thru 338, 340 thru 540, 542 thru 552, 554, 559, 719, 720, and 9443]

CHILDREN AND FAMILIES

1. FEDERAL TEMPORARY ASSISTANCE FOR NEEDY FAMILIES CONTINGENCY AND MAINTENANCE OF EFFORT FUNDING

	2008-09
GPR	- $22,529,000
FED	22,529,000

Reduce funding by $22,529,000 GPR and increase funding by $22,529,000 FED in 2008-09 for programs related to the temporary assistance for needy families (TANF) bock grant. Federal funding consists of TANF contingency funds.

The federal TANF contingency fund provides additional funding for TANF-related programs during times of economic downturns if certain conditions are met. In order to receive a payment of contingency funds, a state must: (a) be a needy state; and (b) submit a request for contingency funds during an eligible month. However, in order to receive these funds, the state must meet maintenance of effort and matching requirements.

First, the state must spend maintenance of effort funding equal to 100% of historic state expenditures ($211.3 million in Wisconsin). Wisconsin's current maintenance of effort requirement under TANF is 80% of historic state expenditures ($169.0 million). As a result, the state would be required to spend an additional $42.3 million to meet the 100% requirement. Second, the state must provide matching funds at the state's federal medical assistance percentage (currently 41% in Wisconsin) applicable for the fiscal year in which funds are awarded. If the state fails to meet the maintenance of effort and/or matching requirements, then the state must pay back all, or a portion, of the contingency funds. If a state fails to pay back the contingency funds, the state's TANF block grant for the following fiscal year is reduced by the amount of contingency funds that was required to be paid back.

The Department of Children and Families (DCF) recently submitted a request for contingency funds, and the state was determined to be needy based on growth in the

FoodShare caseload. The state is eligible for $62.9 million in additional TANF contingency funds in federal fiscal year (FFY) 2008-09. The portion of this award available in state fiscal year (SFY) 2008-09 is $47.2 million.

In FFY 2007-08, $213.5 million in state and local funding was spent on expenditures that would qualify as maintenance of effort. Assuming a similar amount for FFY 2008-09, it would appear that the maintenance of effort of 100% of historic state expenditures requirement would be met. However, this amount includes the $22.5 million GPR that the act eliminates. The Department of Administration (DOA) indicates that as a result, an additional $22.5 million GPR would be provided in 2009-10 under the Governor's 2009-11 biennial budget bill. These funds would have to be spent by September 30, 2009, in order to count towards the maintenance of effort and/or matching requirements for the receipt of the $47.2 million in federal TANF contingency funds in FFY 2008-09.

In addition to the $22.5 million, the state must spend $32.3 million in matching funds before September 30, 2009. Excess maintenance of effort funding of $2.2 million would count towards this match requirement. For the remaining match requirement of $30.1 million, it is unknown whether the state already spends funds in other state programs that would qualify as matching funds or whether additional state funding would be provided during the first three months of SFY 2009-10 to meet the match requirements for the TANF contingency funds. If the state fails to meet the match requirements, a portion of the TANF contingency funds would have to be paid back. If the funds were not repaid, then the TANF block grant for the following federal fiscal year could be reduced.

As noted, the act provides $47.2 million in federal TANF contingency funds. Of these funds, $22.5 million would replace GPR funding that is currently used as maintenance of effort for the TANF block grant. An additional $22.2 million would provide increases to several programs described in the entries below. The projected 2008-09 ending TANF balance would total $2.4 million.

[Act 2 Sections: 9208(1)&(2)]

2. CHILD CARE SUBSIDIES

	2008-09
FED	$20,384,400

Provide $20,384,400 FED in 2008-09 for direct child care subsidies under the Wisconsin Shares program, including funding for child care subsidies, local administration, on-site child care at job centers and counties, and migrant child care. The additional funds would address an anticipated shortfall in the Wisconsin Shares program. Funding for the Wisconsin Shares program in 2008-09 would total $375,736,400.

[Act 2 Sections: 44 and 9208(2)]

3. EMERGENCY ASSISTANCE

	2008-09
FED	$1,000,000

Provide $1,000,000 FED in 2008-09 to increase funding for the emergency assistance program to reflect increased demand for the program, which provides assistance to needy persons in cases of fire, flood, natural disaster, energy crisis, homelessness, or impending homelessness. Funding for the program would total $7,000,000 in 2008-09.

[Act 2 Sections: 43 and 9208(2)]

4. CHILD CARE PROGRAM INTEGRITY

	2008-09	
	Funding	Positions
FED	$837,500	5.00

Provide $837,500 FED in 2008-09, and 5.0 FED positions, beginning in 2008-09, to expand and enhance state oversight of the Wisconsin Shares child care subsidy program.

Licensed Child Care Attendance Monitor System. Provide $500,000 in 2008-09 to implement a system to monitor child care attendance in licensed child care centers. The design of this system has not been fully developed, but may include a "swipe card" system that would allow for the electronic recording and monitoring of attendance at licensed child care facilities. DOA indicates that implementation of this system would address concerns regarding reimbursement of child care providers for children who are not receiving child care or who have parents that may not be legitimately employed.

Under Wisconsin Shares, an eligible parent may choose a child care provider from: (a) a licensed day care center; (b) a certified day care provider (either Level I or Level II); or (c) a day care program provided or contracted for by a school board. A day care center that provides care for four or more children under the age of seven must be licensed by DCF. Day care providers that are not required to be licensed by the state or established by a school board, but are reimbursed under Wisconsin Shares, must be certified by the county department of social or human services or similar tribal body.

Although the act contains no statutory language regarding this system, information provided by DOA indicates that the system would only apply to licensed child care providers.

Program Integrity Unit. Provide $337,500 in 2008-09 and 5.0 positions, beginning in 2008-09, to expand and enhance state oversight of Wisconsin Shares in the Department's program integrity unit. The program integrity unit is responsible for: (a) ensuring that parents and providers receiving state child care subsidies comply with state and federal statutes and rules; (b) monitoring billing and attendance activity; and (c) implementing overpayment prevention strategies.

The additional 5.0 positions would be responsible for monitoring county program integrity efforts and performing investigations, audits, and site visits around the state. These positions would include: (a) a balance of state coordinator; (b) a central office coordinator/data specialist; (c) two field positions, with at least one located in Milwaukee County; and (d) a fraud specialist or investigator. DCF currently has the equivalent of 2.0 positions for Wisconsin Works (W-2) and child care contract and financial monitoring.

[Act 2 Sections: 45 and 9208(2)]

FINANCIAL INSTITUTIONS

1. REGULATION OF MORTGAGE BANKERS, BROKERS, AND LOAN ORIGINATORS

	2008-09	2009-11
PR-REV	$0	$750,000
GPR-Earned	0	750,000

Modify state law regarding the regulation of mortgage bankers, mortgage brokers, and loan originators by the Division of Banking (DOB) within the Department of Financial Institutions (DFI).

Current law requires mortgage bankers, brokers, and loan originators to register with DOB. The act converts the current registration requirements for mortgage bankers and brokers into a licensure requirement. In addition, the act creates a new licensure procedure for mortgage loan originators.

When necessary to provide a framework for the provisions of the act, this summary describes current law provisions, which are specifically identified as current law provisions. The remaining text of the summary describes the language of the act.

Definitions

The act revises the definitions of who qualifies as a *"mortgage banker,"* a *"mortgage broker,"* or a *"mortgage loan originator"* and is therefore subject to regulation. In addition, the act creates, amends, and deletes a series of additional terms that have specific meanings for purposes of regulating these professions.

"Mortgage banker" would mean a person who does any of the following:

a. Originates residential mortgage loans for itself, as payee on the note evidencing the residential mortgage loan, or for another person.