



## Legislative Fiscal Bureau

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May 21, 2013

Joint Committee on Finance

Paper #202

### **Child Care Quality Rating and Improvement System (Children and Families -- Economic Support and Child Care)**

[LFB 2013-15 Budget Summary: Page 116, #12]

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#### **CURRENT LAW**

YoungStar, the state's child care quality rating and improvement system (QRIS), is administered by the Department of Children and Families (DCF) at the state level. Under YoungStar, child care providers are assessed a star rating based on the quality of care they provide. Child care providers participating in the Wisconsin Shares program, the state's child care subsidy program, are reimbursed based on the number of stars earned. This tiered reimbursement system has been implemented as follows: (a) one-star providers are prohibited from receiving reimbursement under Wisconsin Shares; (b) two-star providers receive a reduction of up to 5% from the base reimbursement rate; (c) three-star providers receive up to the base reimbursement rate; (d) four-star providers receive an increase of up to 5% from the base reimbursement rate; and (e) five-star providers receive an increase of up to 25% from the base reimbursement rate.

DCF contracts with the Consortium to rate child care providers, provide technical assistance and grants for provider improvement, and administer YoungStar at the local level. Members of the Consortium include the Celebrate Children Foundation, Supporting Families Together Association, and Wisconsin Early Childhood Association.

Base funding for the contracts is \$7,284,800, which supports: (a) quality assurance monitoring (\$3,249,000); (b) technical assistance for program improvement (\$2,219,200); (c) improvement micro-grants (\$1,154,300); and (d) start-up funding and grant administration (\$662,300).

## **GOVERNOR**

Reduce funding by \$13,100 FED in 2013-14 and increase funding by \$447,200 FED in 2014-15 to reflect a reestimate of ongoing contract costs of YoungStar and to increase the base payment rate under Wisconsin Shares, beginning January 1, 2014, for a four-star child care provider.

Funding reflects a reduction of \$360,800 annually for the contract with the Consortium based on the average monthly expenditures from January, 2011, through May, 2012. Increased funding of \$347,700 in 2013-14 and \$808,000 in 2014-15 would support an increase to the base reimbursement rate adjustment for four-star child care providers under YoungStar's tiered reimbursement system. Under the bill, four-star providers would receive up to a 10% increase from the base reimbursement rate under Wisconsin Shares, rather than up to a 5% increase.

## **DISCUSSION POINTS**

### **Quality Rating and Improvement Systems and YoungStar**

1. According to the National Child Care Information and Technical Assistance Center (NCCIC), a QRIS is an approach to assess, improve, and communicate the level of quality in early and school-age child care and education programs. The NCCIC has published a QRIS resource guide to explain what a QRIS is and to assist communities in planning and implementing a QRIS. Generally, a QRIS consists of five elements: (a) standards; (b) accountability measures; (c) provider support; (d) financial incentives; and (e) parent and consumer education efforts. The following paragraphs describe these elements and how YoungStar has addressed them.

2. QRIS standards assign ratings to child care programs that participate and provide parents and the public with information about each program's level of quality. Typically, child care licensing standards are used as the base of the system and higher levels are achieved with additional standards beyond licensing.

3. YoungStar is a five-star system. Child care providers are assigned one star if their licenses or certifications have been revoked, suspended, or denied, or if their payments under Wisconsin Shares have ended due to fraud or suspected fraud. One-star providers cannot receive reimbursement under Wisconsin Shares. Child care providers accredited by several national organizations and by the City of Madison automatically receive a four- or a five-star rating. The remaining child care providers participating in YoungStar receive a star level based on the number of points earned in the following categories of quality indicators: (a) provider or staff education and training; (b) learning environment and curriculum; (c) business and professional practices; and (d) health and wellness.

4. Accountability and monitoring processes provide ways to determine how well child care programs meet the QRIS standards, assign ratings, and verify ongoing compliance. Monitoring provides the base benchmarks for measuring quality improvement.

5. DCF contracts with the Consortium for quality assurance monitoring. The Consortium has established the star ratings for participating child care providers. Regional staff also explain the ratings to ensure the providers understand them and can begin to make improvements before the next rating. The Consortium rates child care providers annually.

6. A QRIS provides supports for lower quality child care programs, such as training, mentoring, and technical assistance, to promote participation and help child care programs achieve higher levels of quality.

7. Under YoungStar, funding is provided in the contracts for training and technical assistance. In addition, the contracts include funding for micro-grants for child care providers to improve the quality of their child care programs.

8. A QRIS uses financial incentives to help child care programs and providers improve learning environments, attain higher ratings, and sustain long-term quality. Financial incentives may include tiered reimbursement systems, bonuses, quality grants, merit awards, refundable tax credits, loans linked to quality ratings, and priority on applications for practitioner wage initiatives, scholarships, or other professional development supports.

9. YoungStar has implemented a tiered reimbursement system as a financial incentive for child care providers. Four- and five-star rated child care providers receive an increase to their base reimbursement rates (5% for four-star and 25% for five-star), so they receive additional funding for having higher quality child care programs. Three-star providers do not receive an increase to their base reimbursement rates, but could receive additional funding if they move up to a four- or five-star rating. Similarly, two-star providers see a reduction in their base reimbursement rates, but would restore the reduction or receive additional funding if they move up to a higher rating.

10. Finally, a QRIS provides a framework for educating parents about the importance of quality in early and school-age child care programs. Most systems use easily recognizable symbols, such as stars, to indicate the levels of quality and inform and educate parents. Easy and widespread access to this information is an important aspect. Many states post ratings on their websites. Other states may use media, posters, banners, certificates, decals, pins, and other items to indicate quality care.

11. YoungStar uses star ratings to represent the quality of a child care provider, based on a five-star system. As noted above, one-star providers cannot receive reimbursement under Wisconsin Shares. Ratings are posted on the DCF website. A search may be done for a specific child care provider, or various child care providers in a specific area. Parents are able to compare and contrast child care providers based on their ratings. This search also shows how the points were earned for the star rating and lists any violations of certification or licensing standards during the prior two years.

### **Tiered Reimbursement**

12. Prior to implementation of YoungStar, higher quality child care providers received

an increase to their payments under Wisconsin Shares. As part of the Wisconsin Shares program, DCF was authorized to award grants to child care providers who met quality of care standards to improve retention of skilled and experienced child care staff. Standards consisted of the requirements for the accreditation of child care centers by the National Association for the Education of Young Children or any other comparable standards that DCF established, including standards regarding the turnover of child care provider staff and the training and benefits provided for staff. Accredited child care providers received a 5% or a 10% increase from the base reimbursement rates for providing quality child care.

13. With implementation of YoungStar's tiered reimbursement system, five-star child care providers may receive up to a 25% increase from the base reimbursement rate. Since these providers were most likely receiving a 10% increase prior to YoungStar, the result is a 15% net increase since implementation of YoungStar. Under YoungStar, four-star child care providers may receive up to a 5% increase. Since these providers were most likely receiving a 5% increase prior to YoungStar, they receive no additional benefit under YoungStar.

14. AB 40 would authorize four-star child care providers under YoungStar to receive up to a 10% increase to their base reimbursement rates. The Committee could approve the Governor's proposal and provide \$347,700 FED in 2013-14 and \$808,000 FED in 2014-15 (Alternative A1). A 10% increase for four-star providers would mean a 5% increase from the level of funding prior to the implementation of YoungStar.

15. However, child care provider payments rates have been frozen since 2006. With lower than market payments plus a reduction or no increase to payments under YoungStar, two- and three-star child care providers may be struggling to continue to provide services to children participating in Wisconsin Shares. The assumption in the 2011-13 biennial budget process was that there would be 5,180 child care providers participating in YoungStar and, therefore, in Wisconsin Shares as follows: (a) 1,815 licensed group providers; (b) 1,675 licensed family providers; (c) 1,610 certified family providers; and (d) 80 public school programs. As of January 1, 2013, 4,526 child care providers had been rated as follows: (a) 1,769 licensed group providers; (b) 1,481 licensed family providers; (c) 1,126 certified family providers; and (d) 150 public school programs. An additional 315 child care providers were in the process of being rated, for a total of 4,841 child care providers available to provide services to children participating in Wisconsin Shares, which is 6.5% fewer than assumed under 2011 Act 32.

16. The following table shows the distribution of 42,508 children, who are participating in the Wisconsin Shares program, under YoungStar's ratings during the week of March 2, 2013. Table 1 shows that approximately 85% of the children participating in Wisconsin shares were receiving services from providers with three stars or less.

**TABLE 1**

**Number of Wisconsin Shares Children Under YoungStar  
Week of March 2, 2013**

	Licensed <u>Group</u>	Licensed <u>Family</u>	Certified <u>Family</u>	Public School <u>Programs</u>	Total <u>Providers</u>	Percent of <u>Total</u>
One Star	0	6	0	0	6	0.01%
Two Stars	10,363	4,076	2,464	1,293	18,196	42.81
Three Stars	16,031	1,171	154	516	17,872	42.04
Four Stars	1,190	200	28	0	1,418	3.34
Five Stars	<u>4,892</u>	<u>104</u>	<u>0</u>	<u>20</u>	<u>5,016</u>	<u>11.80</u>
Total	32,476	5,557	2,646	1,829	42,508	100.00%

17. The reduced funding level under YoungStar for two-star providers may prove to be a disincentive to participate in Wisconsin Shares altogether, which would decrease the child care available for children who participate in Wisconsin Shares. The Committee may wish to maintain or increase payment rates for all child care providers participating in Wisconsin Shares. The Committee could modify the tiered reimbursement rate system to be similar to the system established in the original five-year YoungStar plan approved by the Joint committee on Finance on December 14, 2010. Similar to the original plan: (a) two-star providers would receive up to the base reimbursement rate; (b) three-star providers would receive up to a 5% increase from the base reimbursement rate; (c) four-star providers would receive up to a 10% increase; and (d) five-star providers would receive up to a 25% increase. Compared to the bill, the Committee could provide \$5,000,000 FED in 2013-14 and \$9,900,000 FED in 2014-15 to implement this change to the tiered reimbursement system beginning January 1, 2014 (Alternative A2).

18. However, the tiered reimbursement system under the original plan would cost \$16.0 million more than current law (\$14.9 million more than the bill). The Committee could, instead, shift some of the funding from five-star providers to two- and three-star providers, while still providing an increase to five-star child care providers compared to the increase they received prior to implementation of YoungStar. The Committee could: (a) decrease the base reimbursement rate for two-star providers by up to 2.5%; (b) increase the base reimbursement rate for three-star providers by up to 2.5%; (c) increase the base reimbursement rate for four-star providers by up to 10%; and (d) increase the base reimbursement rate for five-star providers by up to 15%. The Committee could provide \$900,000 FED in 2013-14 and \$1,300,000 FED in 2014-15, compared to the bill, in order to modify the tiered reimbursement system to reflect these increases and decreases to base reimbursement rates (Alternative A3). This alternative would reduce the increase to five-star providers, but provide more to two-, three-, and four-star providers to try to ensure continued participation in Wisconsin Shares.

19. On the other hand, higher quality child care programs are more expensive to operate. Therefore, an increase of 25% to the base reimbursement rate of five-star child care providers may be appropriate and necessary for these providers to continue to serve children who participate in Wisconsin Shares.

20. Finally, the Committee could delete the Governor's proposal to increase base reimbursement rates for four-star providers by up to 10%, rather than up to 5% (Alternative A4). It could be argued that the current structure of the tiered reimbursement system provides a financial incentive for two-, three-, and four-star child care providers to move up the ladder to become a five-star child care provider and awards the five-star providers with up to a 25% increase to the base reimbursement rate to reward them for the quality achieved. On the other hand, as noted, without sufficient financial reimbursement, some child care providers may choose to no longer serve Wisconsin Shares children.

### **Child Care Provider Quality Improvement**

21. As stated in paragraph #6 above, one of the aspects of a QRIS is to provide support for lower quality child care programs, such as training, mentoring, and technical assistance, to promote participation and help child care programs achieve higher levels of quality. The goal of a QRIS is to improve overall quality of child care.

22. YoungStar's tiered reimbursement system provides a financial disincentive for two- or three-star child care providers to remain at their assessed ratings. The contract with the Consortium, on the other hand, includes an incentive to improve ratings by providing funding to assist lower rated child care providers to improve quality in order to earn a higher rating under YoungStar. The bill would reduce contract expenditures by \$360,800 FED annually based on the average monthly expenditures from January, 2011, through May, 2012. The Committee could approve the Governor's proposal (Alternative B1). It is assumed that the reduction in funding would come from start-up funding and grant administration.

23. As noted above, the contracts include funding for training and technical assistance, as well as micro-grants to help lower rated child care providers improve quality. Training depends on the needs of the providers and includes on-line training, group training, and individual training. Sample topics of training include: (a) sound business practices; (b) implementing a developmentally appropriate curriculum; (c) encouraging early literacy; and (d) supporting health and wellness. Technical consultation and assistance is also provided at the local level to improve business and professional practices, including aligning the curriculum with Wisconsin model early learning standards, child assessment, and other needs identified to build program quality and business acumen.

24. In addition, grants of up to \$250 for certified providers, \$500 for licensed homes, and \$1,000 for licensed group centers are available. Grants may be used for: (a) purchasing books to provide a more robust literacy program; (b) purchasing materials for creating more developmentally appropriate learning areas; (c) purchasing classroom resources in multiple languages to reflect diverse populations; and (d) adapting an environment to accommodate children with disabilities in an inclusive way.

25. The following table shows the number of child care providers by type and by rating under YoungStar during the week of March 2, 2013. Approximately 90% of these child care providers have been assessed at three stars or lower. The child care providers listed in Table 2 do not include those that have not yet been rated.

**TABLE 2**

**Number of Child Care Providers Under YoungStar  
Week of March 2, 2013**

	<u>Licensed Group</u>	<u>Licensed Family</u>	<u>Certified Family</u>	<u>Public School Programs</u>	<u>Total Providers</u>	<u>Percent of Total</u>
One Star	9	9	4	0	22	0.47%
Two Stars	774	1,087	1,061	155	3,077	65.96
Three Stars	736	293	54	33	1,116	23.92
Four Stars	79	61	12	0	152	3.26
Five Stars	<u>264</u>	<u>33</u>	<u>0</u>	<u>1</u>	<u>298</u>	<u>6.39</u>
Total	1,862	1,483	1,131	189	4,665	100.00%

26. Since the goal of a QRIS is to improve overall child care quality, the Committee could provide additional funding in the contract for lower rated child care providers such that they would be able to improve quality to achieve a higher rating.

27. The Committee could increase funding for technical assistance and training, micro-grants, or both in order to provide additional support to lower rated child care programs to improve quality. Base funding for technical assistance and training is \$2,219,200. The Committee could provide an additional \$1,000,000 FED annually (Alternative B2a), an additional \$2,000,000 FED annually (Alternative B2b), or some other amount that Committee chooses to provide (Alternative B2c).

28. The Committee could also increase funding for improvement micro-grants. Additional funding could provide more grants or larger grant amounts to lower rated child care providers in an effort to improve quality. Base funding for the micro-grants is \$1,154,300. The Committee could provide an additional \$1,000,000 FED annually (Alternative B3a), an additional \$2,000,000 FED annually (Alternative B3b), or some other amount that the Committee chooses to provide (Alternative B3c).

29. Another option would be to deny the Governor's proposal to reduce the contract with the Consortium, provide \$360,800 FED annually, and require DCF to amend the contract to require the Consortium to spend these funds on child care provider quality improvement (Alternative B4).

30. Given the TANF structural deficit, and other TANF-related programs competing for TANF funds, the Committee could choose not to provide any additional funding for lower rated child care providers. However, according to an analysis by the Wisconsin Council on Children and Families, from 2008 to 2012, the number of child care providers dropped from 8,213 to 5,621, a decrease of 32%. If the support funding and the funding provided under the tiered reimbursement system becomes too low, more child care providers may choose to opt out of providing care to children who participate in the Wisconsin Shares program.

## ALTERNATIVES

### A. Tiered Reimbursement

1. Approve the Governor's proposal to provide \$347,700 FED in 2013-14 and \$808,000 FED in 2014-15 to increase the base reimbursement rate for four-star providers under YoungStar to up to 10% from the base reimbursement rate, beginning January 1, 2014.

2. Modify the Governor's proposal to provide \$5,000,000 FED in 2013-14 and \$9,900,000 FED in 2014-15 to modify the tiered reimbursement system, beginning January 1, 2014, as follows: (a) two-star providers receive up to the base reimbursement rate; (b) three-star providers receive up to a 5% increase from the base reimbursement rate; (c) four-star providers receive up to a 10% increase from the base reimbursement rate; and (d) five-star providers receive up to a 25% increase from the base reimbursement rate.

ALT A2	Change to Bill Funding
FED	\$14,900,000

3. Modify the Governor's proposal to provide \$900,000 FED in 2013-14 and \$1,300,000 FED in 2014-15 to modify the tiered reimbursement system, beginning January 1, 2014, as follows: (a) two-star providers receive up to a 2.5% reduction from the base reimbursement rate; (b) three-star providers receive up to a 2.5% increase from the base reimbursement rate; (c) four-star providers receive up to a 10% increase from the base reimbursement rate; and (d) five-star providers receive up to a 15% increase from the base reimbursement rate.

ALT A3	Change to Bill Funding
FED	\$2,200,000

4. Delete the Governor's proposal to increase base reimbursement rates for four-star providers up to 10% and reduce funding by \$347,700 FED in 2013-14 and \$808,000 FED in 2014-15. As a result, four-star providers may receive up to a 5% increase from the base reimbursement rate.

ALT A4	Change to Bill Funding
FED	-\$1,155,700

### B. Child Care Provider Quality Improvement

1. Approve the Governor's proposal to reduce contract expenditures by \$360,800 FED annually for the contract with the Consortium to rate child care providers, provide technical



assistance and grants for provider improvement, and to administer YoungStar at the local level.

2. Modify the Governor's proposed contract funding level to provide additional funding for the contract with the Consortium for technical assistance and training in one of the following amounts:

a. \$1,000,000 FED annually. Total funding for technical assistance and training would be \$3,219,200 annually.

<b>ALT B2a</b>	<b>Change to Bill Funding</b>
FED	\$2,000,000

b. \$2,000,000 FED annually. Total funding for technical assistance and training would be \$4,219,200 annually.

<b>ALT B2b</b>	<b>Change to Bill Funding</b>
FED	\$4,000,000

c. An amount chosen by the Committee.

3. Modify the Governor's proposed contract funding level to provide additional funding for the contract with the Consortium for child care quality improvement micro-grants in one of the following amounts:

a. \$1,000,000 FED annually. Total funding for improvement grants would be \$2,154,300 annually.

<b>ALT B3a</b>	<b>Change to Bill Funding</b>
FED	\$2,000,000

b. \$2,000,000 FED annually. Total funding for improvement grants would be \$3,154,300 annually.

<b>ALT B3b</b>	<b>Change to Bill Funding</b>
FED	\$4,000,000

c. An amount chosen by the Committee.

4. Deny the Governor's proposal to reduce funding for the contract with the Consortium. Require DCF to amend the contract to require the Consortium to spend these funds on child care provider quality improvement.

<b>ALT B4</b>	<b>Change to Bill</b>
	Funding
FED	\$721,600

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