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June, 2023 Joint Committee on Finance Paper #252

Child Care Partnership Program
(Children and Families -- TANF and Economic Support)

[LFB 2023-25 Budget Summary: Page 93, #2 and Page 95, #7]

CURRENT LAW

As discussed in LFB Paper #254 Child Care Quality and Availability Initiatives, Wisconsin received substantial federal funding in response to the COVID-19 pandemic to support child care costs. One such Act, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSA), provided supplemental CCDBG funding of $148.8 million to Wisconsin. On September 10, 2021, the Joint Committee on Finance approved the Department of Children and Families' (DCF) plan to use $10.0 million of the federal funding to implement Partner Up!, a public/private partnership program that offers funding for businesses to purchase child care for their employees. On February 9, 2022, the Committee approved an additional $10.0 million in funding received under the American Rescue Plan Act (ARPA) to support the Partner Up! program.

DCF awards Partner Up! grants to businesses on a competitive basis. Under the program, DCF sets a rate table for the "true cost" of child care for which the state pays no more than 75% of the cost and the employer contributes at least 25% of the costs. The Supporting Families Together Association (SFTA), along with Wisconsin's nine resource and referral agencies, administer the program. The agencies work with interested businesses and child care programs in their regions to provide ongoing support to participants. SFTA administers the program and issues the payments directly to the child care providers. SFTA invoices each participating business, each business pays SFTA for its portion of the costs, and SFTA sends the contributions from the business and DCF to the provider. The program does not alter state or federal tax law, under which the first $5,000 paid by the employer is excluded from income as a nontaxable fringe benefit.

For the first two rounds of funding, 219 businesses participated. DCF made available an online application for the third round of funding beginning April 12 through May 12, 2023.

The following table shows the payment rates available under the third round of funding. SFTA pays up to 65% of the true cost of care. For newly contracting businesses, the applicant must contribute 25% or more of the true cost of care. Parents are required to contribute 10% of the true cost of care, but the business may choose to cover the cost for its employees (in which case the minimum to contribute is 35%). Parents are responsible for covering any costs above the true cost of care (such as regular tuition that is more than the true cost of care, field trips, and special projects).

Partner Up! Monthly True Cost of Care

		Maximum Parent Pay for Newly Contracting Businesses	Minimum Contribution for Newly Contracting Businesses	Minimum Contribution for Businesses Renewing Contracts
Age Group	Monthly Total	10%	25%	35%
Full-Time (21+ hours per Week)				
Less than 2 years	$1,800	$180	$450	$730
2-year-old	1,400	140	350	490
3-year-old	1,100	110	275	385
4 & 5-year-olds	1,000	100	250	350
6+ years old	900	90	225	315
Part-Time (1-20 hours per week)				
Less than 2 years	$1,200	$120.00	$300.00	$420.00
2-year-old	925	92.50	231.25	323.75
3-year-old	725	72.50	181.25	253.75
4 & 5-year-olds	675	67.50	168.75	236.25
6+ years old	600	60.00	150.00	210.00

For businesses applying to renew an existing Partner Up! contract, the businesses must contribute 35% or more of the true cost of care and may not decrease its contribution amount from their original contract. The parent pay amount for the true cost of care is reduced to $0. Renewing businesses can decrease or change the number of slots for which they applied, but they cannot increase the number of slots for which they were previously approved. For both new and previously approved applications, awards are limited to nine or 12 months.

In awarding grants, SFTA gives priority to small businesses (businesses with 50 or fewer employees) that apply for their low to middle income workers. Further, SFTA gives priority to new businesses that will contribute 30% of more of the true cost of care and existing businesses that will contribute 40% or more of the true cost of care.

As a matter of DCF policy, families can only participate in one child care program. Consequently, a child may not participate in both Partner Up! and Wisconsin Shares or the inclusive Birth to Three program.

Because the federal funding supporting Partner Up! was provided on a one-time basis, funding for the program will end after September, 2023. Without additional funding, DCF will terminate the program.

DISCUSSION POINTS

1. The unemployment rate in Wisconsin is currently at historic lows and it is difficult for employers to find workers. The cost and scarcity of child care has exacerbated these problems.

2. For example, according to the DCF 2020 market rate survey, the average weekly cost of a slot for an infant in Dane County was more than $255 at a family care provider (nearly $1,100 per month and $13,200 per year) and was $345 at a group care provider ($1,480 per month and $17,800 per year). By comparison, the federal poverty level for a family of three in 2020 was $21,720. For much of the child care in the state, the cost of care exceeded the in-state cost of tuition and fees at the University of Wisconsin - Madison (estimated to be $11,216 for the 2023-24 school year). According to study of child care availability by Child Care Aware, the average monthly price of child care in Wisconsin in 2020 was $915. In order for a Wisconsin family to pay the U.S. Department of Health and Human Services' recommended affordability benchmark of 7% of household income, the household would need an annual income of more than $156,850 to support the average cost of care.

3. Similarly, DCF's 2021 Needs Assessment report for Wisconsin's Preschool Development Grant programs identified that the average price of infant care constitutes 18.5% of the median family income in Wisconsin and 83.3% of the yearly wages of a minimum wage worker.

4. The Attachment shows the estimated daytime and nighttime capacity of all regulated childcare providers in each county as of January 31, 2023. As shown in the attachment, many rural counties have relatively few slots of regulated child care available for families. For example, total daytime capacity in Florence County was estimated to be 38 slots. Several counties have no regulated nighttime capacity at all.

5. In the fall of 2021, DCF surveyed almost 1,000 Wisconsin businesses. Roughly 58% of respondents indicated COVID-19 had decreased their employees' access to quality child care, with the lack of access over the previous 12 months leading to: employees changing or reducing hours (45%); difficulty hiring new employees (43%); employees taking more unpaid leave (42%); employees leaving the workforce (34%); lost revenue due to staffing shortages (20%); and reduced hours or business closures due to staffing shortages (15%). However, few employers indicated they provided support for their employee's child care costs. According to the survey, only 15% of employers offered on-site child care operated by the employer, 13% offered a flexible spending account for child care costs, and 10% of employers offered an employee benefit to pay for child care costs. [These percentages are not additive since employers may offer all three benefits.]

6. DCF implemented the Partner Up! program to assist employers in increasing their employees' child care benefits. The increased remuneration effectively acts as a labor supply subsidy, which may enable more parents to work for longer hours than they would without child care, thereby inducing more workers into the labor force. DCF estimates that 40% of Partner Up! employees in

rounds 1 and 2 had annual household income under $50,000 and that 64% of employees had annual household income under $75,000. Thus, the program subsidizes the cost of child care for working families who do not qualify for Wisconsin Shares child care subsidies. This subsidy tends to increase the demand for licensed child care, which may induce additional supply in areas where licensed care is scarce. DCF indicates that there are three main goals of the program. First, the overarching purpose is to build relationships between businesses and the early care and education system, including increasing business support of child care broadly and by providing start-up funding to help employers support employees' child care costs. The goal is to reach a geographic diverse range of businesses, provide a short-term subsidy to create a program, and provide a reasonable transition period to local sustainability.

7. The second goal is to help businesses retain and recruit talent, by reducing child care expense as a barrier to employment (particularly in supporting child care costs for low- and middle-income workers). The pilot design intends for businesses and parents to gradually increase their contribution, while the state's contribution decreases.

8. The third goal is to provide the subsidy in such a way that child care providers are fully compensated for the true cost of providing child care. According to DCF, the true cost of providing care, especially for very young children, is frequently greater than what a provider can charge a family. This contributes to the very low wages and margins seen in child care businesses.

9. Partner Up! gives priority for businesses that use child care in areas located in child care "deserts." Child care deserts are defined as areas with limited or no access to quality child care. This is commonly measured as an area with a ratio of children under the age of five to the cumulative child care center capacity exceeding three to one. By leveraging private funds to pay for child care, the increased funding may induce demand for child care and sustain child care slots in areas of the state that may otherwise lack demand to support child care providers. This is intended to have a spillover effect for local economies, providing access to child care for other, unsubsidized workers.

10. Overall, for the first two rounds of grants, 219 businesses participated, using 253 child care providers so that 1,269 slots of care could be provided to their employees. Of those employers, 53 paid more than 25% of the cost, with the average overall contribution of 30% (including parents) and the DCF contribution of 70%. According to DCF, the first two rounds of grant awards were allocated across the state based on the percent of privately owned establishments reported to the Bureau of Labor Statistics in 2020. The distribution of funding across state regions was the following: (a) 15% Western; (b) 20% Southern; (c) 25% Northeastern; (d) 10% Northern; and (e) 30% Southeastern.

11. AB 43/SB 70 would create an annual GPR appropriation and provide $11,198,000 annually to create a child care partnership grant program, including $10,000,000 annually to fund grants and $1,198,000 annually to fund contracted services to administer the program. DCF would be authorized to award grants to businesses that provide, or wish to provide, child care services for their employees. Businesses could use grants to: (a) reserve child care placements for their employees; (b) pay child care tuition; and (c) fund other costs related to child care. DCF would be authorized to promulgate rules to administer the program, including rules to determine eligibility for grants. Grantees would be required to provide matching funds equal to at least 25% of the amount awarded.

A "business" eligible for the grants would mean any organization or enterprise operated for profit or a nonprofit corporation, and would not include a governmental entity.

12. Based on the high levels of participation for the pilot program, relative lack of child care availability, and the continuation of the tight labor market across the state, the Committee could approve the funding and statutory changes in AB 43/SB 70 (with a minor technical change to correct a cross-reference) to continue the Partner Up! program (Alternative 1).

13. Alternatively, the Committee could choose to provide federal funding instead of, or in addition to, GPR funding for the program (Alternatives 2a, 2b, 2c, or 2d). Because the program directly subsidizes child care, federal funding under the temporary assistance for needy families (TANF) block grant and the child care and development fund (CCDF) could be budgeted for the program. However, both federal funding sources impose financial eligibility requirements that are not currently imposed on the program with the current CCRSA and ARPA fund sources. All workers with income that exceeds the CCDF eligibility thresholds (85% of the state median income, which is $73,466 for a family of three in 2023) would not qualify for the subsidies and thus employers would not be able to offer child care benefits through the program to all of their employees. For those employees, participating employers would have to pay for all of the costs of child care benefit provided or the program would need to utilize GPR (and a separate payment process) for those employees.

14. Further, DCF indicates that TANF funding requirements and eligibility determinations would impose reporting and verification determinations. For example, employees would need to apply for the state sponsored benefit and provide various types of information, such as their household income (not just the income earned at their employer). Employers are less likely to participate if they would need to process and provide such information. DCF indicates program design changes, such as expanding and utilizing the Wisconsin Shares existing eligibility determination and payment processes, could potentially address the required federal restrictions on CCDF and TANF funding. For example, state staff performing eligibility determinations in Milwaukee and county eligibility workers for the balance of state could perform similar tasks for Partner Up! However, there would be unknown costs for expanding Wisconsin Share's administration in this manner. For example, DCF's eligibility information technology and electronic benefit transfer (EBT) systems would incur costs to include Partner Up! participants. DCF indicates that there would be administrative complexity in creating a dual payment system, one for tracking federal payments via EBT cards and one for GPR payments for participants who would not qualify for TANF/CCDF.

15. Notwithstanding the administrative complexities described above, the Committee could choose to support the program with FED (TANF) funds or a combination of GPR and FED (TANF) funds. For example, the Committee could provide annual funding in the following amounts: (a) $0 GPR and $10.0 million FED (Alternative 2a), $2.5 million GPR and $7.5 million FED (Alternative 2b), $5.0 million GPR and $5.0 million FED (Alternative 2c), $5.0 million GPR and $10.0 million FED (Alternative 2d), or some other funding combination. Each of these alternatives would also include $2.0 million FED in 2023-24 and 2024-25 for the administrative costs needed to design and implement the Partner Up! program using federal funding sources compliant with federal regulations.

16. Finally, the Committee could find that it is unnecessary to provide compensation to

employees on behalf of employers and take no action on the proposal. As for the worker retention and recruitment issues identified above, to the extent that current wages are insufficient to induce workers to join the labor force the most direct solution for an employer may be to increase the wages they provide. Further, note that the price supports offered by the program are provided only to pre-existing child care providers and are not aimed at assisting new providers to become licensed. Thus, to address shortages of licensed child care capacity in certain areas of the state, the Committee could choose to provide funding for a different program.

ALTERNATIVES

1. Adopt the provisions in AB 43/SB 70, as described in Discussion Point 11, with a technical correction, to create a child care partnership grant program, and provide $11,198,000 GPR annually for this purpose, including $10,000,000 annually to fund grants and $1,198,000 annually to fund contracted services to administer the program.

ALT 1	Change to Base
GPR	$22,396,000

2. Adopt Alternative 1, with a modification, described in Discussion Point 13, to provide a combination and federal funding under the temporary assistance for needy families block grant and the child care and development fund.

ALT 2	Change to Base
a. GPR	$0
FED	24,000,000
Total	$24,000,000
b. GPR	$5,000,000
FED	19,000,000
Total	$24,000,000
c. GPR	$10,000,000
FED	14,000,000
Total	$24,000,000
d. GPR	$10,000,000
FED	24,000,000
Total	$34,000,000

3. Take no action.

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ATTACHMENT

Estimated Child Care Capacity and Enrollment
January 31, 2023

	Daytime Capacity	Nighttime Capacity	Estimated Enrollment		Daytime Capacity	Nighttime Capacity	Estimated Enrollment
Adams	127	-	111	Milwaukee	53,684	10,269	37,764
Ashland	490	48	398	Monroe	626	24	599
Barron	745	18	656	Oconto	298	6	374
Bayfield	200	6	207	Oneida	670	6	651
Brown	7,899	44	7,079	Outagamie	5,953	36	5,088
Buffalo	124	2	115	Ozaukee	3,432	12	2,868
Burnett	214	81	202	Pepin	117	-	111
Calumet	1,089	40	934	Pierce	836	6	926
Chippewa	1,647	16	1,688	Polk	922	20	955
Clark	504	-	589	Portage	1,827	-	1,586
Columbia	1,429	-	1,283	Price	180	9	197
Crawford	135	6	155	Racine	5,050	300	4,428
Dane	24,464	416	20,192	Richland	220	56	138
Dodge	1,786	20	1,527	Rock	3,883	101	3,916
Door	474	12	389	Rusk	169	6	127
Douglas	936	3	899	St. Croix	2,985	-	2,610
Dunn	703	-	690	Sauk	1,049	18	1,062
Eau Claire	4,436	34	4,011	Sawyer	514	6	400
Florence	38	-	34	Shawano	526	-	526
Fond du Lac	1,938	96	2,032	Sheboygan	2,571	98	2,301
Forest	225	-	187	Taylor	275	-	184
Grant	1,011	-	998	Trempealeau	512	12	404
Green	919	-	854	Vernon	280	6	262
Green Lake	287	7	257	Vilas	427	-	359
Iowa	400	-	379	Walworth	1,565	8	1,726
Iron	45	-	21	Washburn	356	6	343
Jackson	350	30	302	Washington	3,468	36	3,474
Jefferson	1,580	6	1,336	Waukesha	14,335	121	13,111
Juneau	626	8	592	Waupaca	989	20	1,219
Kenosha	5,471	162	4,730	Waushara	383	12	359
Kewaunee	436	6	369	Winnebago	4,656	117	3,648
La Crosse	3,812	72	3,338	Wood	2,179	106	2,039
Lafayette	196	12	199	Menominee County	317	-	255
Langlade	268	18	254	Potawatomi	9	18	21
Lincoln	410	6	408	Bad River Tribal	6	12	17
Manitowoc	1,515	10	1,068	Oneida Nation	3	6	5
Marathon	3,387	86	2,967				
Marinette	813	8	788	Total	186,560	12,754	156,440
Marquette	159	28	149				