Legislative Fiscal Bureau

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

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