



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #204

Quality Rating and Improvement System (Children and Families -- TANF and Economic Support)

[LFB 2021-23 Budget Summary: Page 89, #9, #10, and #11; Page 90, #12]

CURRENT LAW

The Child Care Quality Rating and Improvement System, referred to as YoungStar, evaluates child care providers on a publically searchable five-star scale. YoungStar communicates its ratings to the public and provides training, technical assistance, and certain financial assistance to improve child care quality in Wisconsin. Funding for YoungStar and Wisconsin Shares is provided from the temporary assistance for needy families (TANF) block grant and the Child Care and Development Fund (CCDF), which includes the Child Care and Development Block Grant (CCDBG).

The Supporting Families Together Association (STFA) administers the YoungStar program locally in 10 offices in six regions. YoungStar expenditures totaled \$9.8 million in 2019-20. In 2020-21, \$9.8 million is budgeted for the program, to support: (a) quality assurance monitoring (\$0.5 million); (b) training and technical assistance (\$5.1 million); (c) quality improvement grants, referred to as "micro-grants" (\$2.1 million); (d) local administration and startup grants (\$0.3 million); (e) rating services (\$1.2 million); and (f) other costs, such as information technology and state staff (\$0.6 million).

In general, child care providers must participate in YoungStar in order to participate in Wisconsin Shares. However, license-exempt programs, such as those operated by school districts, need not participate in YoungStar to receive payments under the Wisconsin Shares program.

YoungStar assesses child care providers when they apply to be in YoungStar, and every other year thereafter when they renew their YoungStar contract. There is an appeals process for child care providers who disagree with their rating. Ratings are posted on the Department of

Children and Families' (DCF) website.

Child care providers are automatically assigned one star if their licenses or certifications have been revoked, suspended, or denied, or if their payments under Wisconsin Shares have ended due to fraud or suspected fraud.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.

Table 1 provides information on the YoungStar ratings of child care providers, by type of provider, as of September 30, 2020.

TABLE 1

YoungStar Participation, September 30, 2020

Wisconsin Shares Children Authorized by YoungStar Rating

One Star*	Two Star	Three Star	Four Star	Five Star	Total
0 (0%)	9,536 (31.2%)	12,679 (41.5%)	2,290 (7.5%)	6,041 (19.8%)	30,546 (100%)

YoungStar Ratings of Child Care Provider by Regulated Type

	One Star	Two Star	Three Star	Four Star	Five Star	Total
Licensed Group	5	609	666	120	436	1,836
Licensed Camp	0	44	7	6	4	61
Licensed Family	10	553	341	76	60	1,040
Certified Family	0	260	37	9	2	308
Public School	<u>0</u>	<u>114</u>	<u>40</u>	<u>3</u>	<u>2</u>	<u>159</u>
Total	15	1,580	1,091	214	504	3,404
	(0.4%)	(46.4%)	(32.1%)	(6.3%)	(14.8%)	(100.0%)

Child care providers that comply with licensing regulations, or are managed by a school board, may opt out of the technical observation process and automatically receive a two-star rating. Providers often choose to forgo the technical ratings process because they would not meet the educational and training requirements needed to receive a higher rating. Child care providers may automatically receive a four- or five- star rating through accreditation with certain organizations that DCF has recognized as having equivalent standards as YoungStar.

Child care providers receive an adjustment to their reimbursement under Wisconsin Shares based on the number of stars they earn. The rate adjustment applies after the parent copayment. State law sets the tiered reimbursement amounts 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 15% from the base reimbursement rate; and (e) five-star providers receive an increase of up to 30% from the base reimbursement rate. Using its statutory authority, DCF sets the YoungStar adjustment for two-star

programs at -1%.

For example, assume a family of two consisting of a single mother and a three-year-old participates in Wisconsin Shares in Milwaukee County and receives a weekly subsidy equal to \$194.60 (the maximum rate of \$199.85 less a copay of \$5.25). If the family uses a four-star provider costing \$226.79 per week, the YoungStar bonus would \$29.19 (15% of the subsidy). DCF pays the YoungStar bonus directly to the provider and does not require the provider to apply it to unpaid amounts owed by the family (such as the difference between the subsidy and the provider's price).

Table 2 shows the tiered reimbursements under YoungStar in 2019. As shown in the Table, YoungStar adjustment resulted in a net increase in child care subsidy payments of approximately \$19.4 million, which is 7.5% of issuance. Together with Wisconsin Shares issuance, payments for direct subsidies in 2019 to providers were \$277.4 million. (This figure does not including contracts with counties for child care.)

TABLE 2

YoungStar Tiered Reimbursement for 2019

	<u>Authorized Hours</u>	<u>Wisconsin Shares Issuance</u>	<u>YoungStar Adjustment</u>
Not Rated	2,514,344	\$9,155,674	\$0
1 Star	1,150	254,699	0
2 Stars	20,585,684	73,326,776	-728,350
3 Stars	30,625,030	118,356,987	0
4 Stars	5,667,927	19,188,851	3,219,347
5 Stars	<u>13,368,513</u>	<u>54,631,326</u>	<u>16,868,235</u>
Total	72,762,648	\$274,914,313	\$19,359,232

DCF also distributes micro grants to programs participating in YoungStar that are receiving technical assistance for quality improvement activities. Grants are available in the following amounts: (a) \$1,000 for licensed group child care programs; (b) \$500 for licensed family child care programs; (c) \$250 for certified family child care programs; and (d) \$200 for short-term operational programs operating for 14 consecutive weeks or less (such as summer camps). Grantees may use these funds to support costs of improving the quality of their programs, including continuing education for staff, equipment and materials for children, accreditation materials or fees, and facility improvements. Through September, 2020, over the life of the program, a total of \$15.9 million in micro grants had been issued to child care providers. SFTA administers the micro-grant program by reviewing applications and approving grants to qualifying provider

DISCUSSION POINTS

1. DCF indicates that the current implementation of YoungStar may violate federal regulations relating to minimum spending requirements for the CCDF.

2. Federal law requires that, after setting aside funding to meet minimum child care quality spending requirements (9%) and allowable administrative costs (up to 5%), states must use at least 70% of the remaining discretionary CCDBG funds for direct child care services. Further, federal law requires states to use at least 70% of their mandatory and matching funding received under the Social Security Act for child care services for families who are receiving public assistance under TANF, families who are trying to become independent of TANF through work activities, and families who are at risk of becoming dependent on public assistance. Table 3 shows the federal minimum requirements for the allocation of CCDF funds, and the percentage of CCDF funds Wisconsin has expended in each of the reporting categories in federal fiscal years (FFYS) 2016-17 through 2018-19.

TABLE 3

Child Care Development Fund Reporting Categories and Minimum Requirements

<u>Category</u>	<u>Requirement</u>	<u>Wisconsin's Percentages</u> <u>Federal Fiscal Years</u>		
		<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
Direct Services	At least 70% of the mandatory and matching awards and 70% of the discretionary award after the quality, administration, and infant-toddler set-asides.	71%	76%	76%
Quality	At least 7% of the total award in FFY 2016-17 and at least 8% in FFY 2017-18 and 2018-19.	12	13	11
Infants and Toddlers	At least 3% of total award.	3	4	4
Administration	No more than 5% of total award.	5	4	4
Non-Direct Services	No requirement.	17	15	11

3. For federal CCDF reporting purposes, the U.S. Department of Health and Human Services, Administration for Children and Families financial report Form ACF-696 clarifies that direct services consist solely of expenditures for child care subsidies to eligible children. Non-direct services are the costs of providing child care subsidies (operating a voucher program and eligibility determination) or other program activities that are not considered administrative costs.

4. YoungStar bonuses are not loaded into a participating families' electronic benefits account, but rather directly paid to a child care provider. As a result, DCF indicates that these payments may not properly qualify as direct services. For that reason, DCF currently reports these costs as non-direct services.

5. Because YoungStar bonuses are fixed percentage of Wisconsin Shares subsidies

(totaling 7.5% of total issuance in 2019), they will increase proportionately as subsidy payments increase. Further, any increase in quality initiatives further increases costs relative to direct services. For this reason, DCF projects that the state child care programs will not meet CCDF minimum spending requirement on direct services, beginning with the FFY 2023 grant.

6. To address this matter, Assembly Bill 68/Senate Bill 111 would delink YoungStar bonuses from Wisconsin Shares subsidies. As part of the change, the TANF allocation for direct child care services (which is used for YoungStar bonuses) would be reduced by \$23,637,000 FED, of which a portion of that funding would be redirected for the Child Care Strong program, as described below.

7. Further, YoungStar micro grants would be converted to annual bonus payments to child care providers rated 3-, 4-, or 5-stars to hold them harmless from decreases in YoungStar bonuses resulting from delinking the program from Wisconsin Shares subsidies. As part of the change, the TANF allocation for Quality Care for Quality Kids would be reduced by \$2,300,000 FED and the TANF allocation for direct child care subsidies would increase by a corresponding amount.

8. As introduced, AB 68/SB 111 would replace YoungStar bonuses by implementing the Child Care Strong program. The relevant statutory provisions for YoungStar bonuses would be repealed and DCF would be granted authority to promulgate emergency rules without the finding of an emergency to administrate the child care quality improvement program, including eligibility requirements, payment amounts, and restrictions on how recipients may spend grant awards.

9. Although not specified in AB 68/SB 111, DCF states that Child Care Strong would include: (a) base grants of up to \$150 per month for all regulated providers to assist them to meet regulatory and quality requirements, at an estimated annual cost of \$12,902,000 annually; (b) bonus grants of up to \$150 per month to providers whose slots for child care are at least 25% infants and toddlers, at an estimated annual cost of \$4,170,600; (c) monthly grants to providers rated 3 stars and above for each child cared for that participates in Wisconsin Shares, at an annual cost of \$32,887,100; and (d) grants to providers rated 3 stars and above for each child cared for that does not participate in Wisconsin Shares, at an annual cost of \$19,693,700.

10. DCF indicates that the funds would be administered using the preexisting Child Care Counts program, which DCF used to distribute grants to providers using federal funds received under the Coronavirus Aid, Relief, and Economic Security Act and the Consolidated Appropriations Act of 2021. According to DCF, this system has proven to be efficient and transparent. It also allows for data collection and analysis.

11. DCF states that monthly base payments would be more financially viable for new providers to enter the field compared to YoungStar bonuses (which are generally provided to more established providers who have become rated and/or accredited). In addition, grants would incentivize unregulated providers to become regulated whereas YoungStar does not offer a comparable incentive.

12. Grants for infant and toddler slots would be provided to reduce the high cost of infant and toddler care. Higher costs are due to the fact that younger children require more supervision and infrastructure, which is reflected in required teacher to child ratios and building requirements. By comparison, YoungStar does not specifically reward child care providers for undertaking more costly

expenses to care for young infants and toddlers.

13. DCF states that it would require child care providers to allocate more than half of the monthly payments towards staff salaries and benefits in order to support wage increases for the early care and education workforce.

14. None of the Child Care Strong grants would be linked to Wisconsin Shares subsidy amounts, and therefore could be raised or lowered as needed to meet federal CCDF expenditure requirements.

15. Funding for Child Care Strong would consist of: (a) \$53,016,400 GPR under a new annual appropriation; and (b) an increase in the TANF allocation for Quality Care for Quality Kids initiatives by \$17,637,000 FED annually (a net decrease of \$6,000,000 FED when accounting for the decrease in YoungStar bonuses in the allocation for direct services and converting micro grants to annual bonuses). DCF indicates that GPR is needed to ensure that the federal 70% direct service expenditure requirement is met.

16. The Committee could find that it is necessary to delink YoungStar bonuses from child care subsidies in order to meet federal regulations. Further, because the Child Care Counts program provided federal grant funding to child care providers relatively quickly across the state, the Committee could find that a similar state-funded program could successfully distribute funding for quality initiatives that benefit providers in ways that YoungStar is not designed to accomplish. As a result, the Committee could decide to replace YoungStar bonus payments with grants under the Child Care Strong program (Alternative 1). This alternative would incorporate all of the provisions included in AB 68/SB 111, as summarized in the LFB summary (Page 89, #9, 10, and 11, and Page 90, #12).

17. Alternatively, the Committee could decide to modify the proposal in several ways. First, the Committee could delay the effective date of delinking YoungStar bonuses from Wisconsin Shares in order to give DCF time to implement Child Care Strong (Alternative 2). AB 68/SB 111 would repeal the relevant statutory language effective on the date of the bill. However, DCF indicates that it would need additional time to implement the Child Care Strong program to replace it. As a result, if Alternative 1 were adopted, there could be a lengthy period of time where no child care quality bonuses are provided to child care providers. In order to avoid that outcome, the Committee could adopt Alternative 1 with the modification that the effective date of the repeal would be the earlier of the date DCF issues emergency rules for the Child Care Strong program or the start of the federal fiscal year (October 1, 2021).

18. In providing for additional YoungStar bonus payments while Child Care Strong is implemented, the Committee may choose to provide additional funding to the TANF allocation for direct care services for the increased cost of continuing YoungStar for a few months. At an estimated cost of \$1,600,000 per month, the Committee could choose to provide funding in one of the following amounts: (a) \$4,800,000 FED for the estimated cost of three months of YoungStar bonuses; (b) \$3,200,000 FED for two months; (c) \$1,600,000 for one month; or (d) no additional funding. In the event additional funding is needed, DCF may request a reallocation of TANF funding from the Committee at a later date to move funding for child care quality initiatives (Child Care Strong) to the allocation for direct care subsidies (YoungStar bonuses).

19. Second, the Committee could decide to retain current law provisions which prohibit payment of Wisconsin Shares subsidies to one-star providers (Alternative 3). Child care providers are automatically 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. However, AB 68/SB 111 would repeal the statutory provision that requires DCF to deny payment to one-star providers. As a result, DCF would be allowed to create administrative rules which allow payments to child care providers that do not meet health and safety standards. The Committee could modify the proposal to retain the prohibition to ensure that fraudulent and unsafe providers are not receiving subsidies and quality bonus payments.

20. Third, the Committee could utilize federal funding for Child Care Strong (Alternatives 4 and 5). As discussed in Paper #202, the American Rescue Plan Act (ARPA) of 2021 provided substantial child care funding, including an estimated \$223.2 million for supplemental CCDBG funding and \$357 million for child care stabilization grants. Pursuant to ARPA, these funds are not subject to the 70% direct services expenditures requirement, and thus it would not violate the CCDF minimum requirements on direct services expenditures to use them to support Child Care Strong.

21. In particular, the Child Care Stabilization grant funds were intended to support the child care industry through the economic disruption caused by the COVID-19 pandemic by providing grant funding for program operating expenses. Such funding may be used for personnel costs, rent, equipment and supplies needed during the pandemic, activities needed to maintain or resume care, and for reimbursing costs incurred during the pandemic. Providers need not accept Wisconsin Share participants in order to qualify for funding and may be group-based or home-based, licensed or certified. Conceptually, the Child Care Strong proposal, which would use the same administrative process used for child care counts grants, would seem to be the kind of program for which the federal funding was intended to be used.

22. DCF has until September, 2022, to obligate Child Care Stabilization grant funding and until September, 2023, to liquidate all funding. As a result, this funding source could be used to pay for some, if not all, of the Child Care Strong program. Therefore, the Committee could choose to maintain current law for the YoungStar program as well as create the Child Care Strong program using federal funding of \$70,653,400 annually during the 2021-23 biennium (Alternative 6).

23. However, since ARPA is a one-time funding source, if the Child Care Strong program were to continue after the 2021-23 biennium, then it is likely that GPR funding would be needed in the 2023-25 biennium to fund program costs and to meet the 70% direct services expenditure requirement under federal CCDF regulations.

24. For this reason, the Committee could instead decide to maintain the current YoungStar tiered reimbursement program by paying bonuses via participating families' EBT accounts. As discussed in a memorandum from this office to the Committee dated March 25, 2015, regarding DCF's expenditure plan for implementing the EBT card system, DCF originally intended to load YoungStar bonuses in participating families' accounts for payment to providers along with subsidies. The Committee considered, and ultimately rejected, a motion requiring DCF to pay YoungStar bonuses directly to child care providers.

25. Current law sets YoungStar bonuses as an adjustment to the maximum payment rate in Wisconsin Shares, rather than a separate bonus payment to child care providers. These expenditures are paid via the TANF allocation for direct services, which includes child care subsidies and not quality initiatives. Thus, current law arguably intends for YoungStar bonus payments to reimburse expenses incurred by participating families.

26. As explained in a frequently asked questions document circulated by DCF in February, 2016, the original intent of loading YoungStar bonus payments into EBT accounts was to cap reimbursement at the provider's market rate:

DCF is capping the rate paid to parents at the provider's private pay rate because the YoungStar Tiered Reimbursement was never intended to allow providers to charge low-income working parents more for care than they charge private pay parents.

This will make the MyWICildCare EBT model more closely mirror private pay practices. The MyWICildCare EBT system emphasizes to parents the costs and benefits of selecting high-quality care. The YoungStar Tiered Reimbursement model encourages parents to choose higher quality care by providing a financial incentive. Parents will have more money loaded on their EBT card if they choose a higher-rated provider.

27. Many child care providers opposed the proposed change, viewing YoungStar bonuses as a quality initiative rather than an additional funding source to backfill potential underfunding in Wisconsin Shares reimbursement rates. Ultimately, DCF decided not to cap reimbursements at the provider pay rate and instead continued to directly pay YoungStar bonuses to providers. The enhanced payments are meant to incent providers to improve child care quality as well as support the enhanced costs four- and five-star providers face.

28. The Committee could decide to return to the original implementation plan for the EBT system, by requiring DCF to load YoungStar bonuses into parent's EBT accounts such that the combined Wisconsin Shares Subsidy and YoungStar bonus could not exceed the price charged by child care providers (Alternative 7). If a child care provider's rates are higher than the combined subsidy and YoungStar bonus amount, the parent would be responsible for the difference. Because the expenditures would be for child care subsidies, federal regulations would likely count the bonus as a direct service for reporting purposes, as is the case with quality ratings and improvement programs in other states.

29. Similarly, the Committee could decide to pay YoungStar bonuses via the EBT system, but without imposing a cap (Alternative 8). Under this alternative, parents would pay the YoungStar bonus, but the bonus would not count towards the cost of care provided. Thus, parents would be responsible for the copay as well as any difference between the subsidy amount and the market price charged by the provider.

30. However, because such payments would not count towards the provider's fee, it is unclear whether the payments would properly count as direct services for federal reporting purposes.

31. Finally, the Committee could choose to maintain the YoungStar program as it is under current law (Alternative 9). As discussed, DCF has not yet breached the 70% minimum expenditure

required for direct services and the Administration for Children and Families has not notified DCF that current practices do not meet federal guidelines.

32. As previously indicated, current law only requires DCF to pay up to a certain percentage of Wisconsin Shares subsidies, and does not actually require DCF to pay any particular amount. For example, using its statutory authority, DCF sets the YoungStar adjustment for two-star programs at -1% instead of -5%.

33. Therefore, if the state's child care programs eventually are found to be noncompliant with CCDF reporting regulations, DCF already has statutory authority to decrease YoungStar bonus amounts as needed in order to come back into compliance. As a result, the Committee could determine that changes to the program are unnecessary at this time.

34. However, note that if DCF were required to use its authority to decrease YoungStar adjustments, then child care providers would receive less funding under the program. This may financially harm providers that depend on this money, or otherwise require providers to reject Wisconsin Shares participants in favor of private pay children that pay a higher market rate.

ALTERNATIVES

1. Adopt all of the provisions in AB 68/SB 111 that would delink the YoungStar quality rating and improvement program from the Wisconsin Shares child care subsidy program and create the Child Care Strong program to provide grants to child care providers (LFB Summary, Page 89, #9, #10, and #11, and Page 90, #12).

This alternative would: (a) reduce the TANF allocation for direct child care services by \$23,637,000 FED annually to eliminate YoungStar bonuses; (b) provide \$53,016,400 GPR annually under a new annual appropriation and \$17,637,000 FED annually under the TANF allocation for Quality Care for Quality Kids initiatives to create the Child Care Strong program (including the elimination of base funding for micro grants); and (c) increase the TANF allocation for direct child care services by \$2,300,000 FED annually to convert YoungStar micro grants to annual bonus payments to hold providers harmless from decreases in YoungStar bonuses resulting from delinking YoungStar from Wisconsin Shares subsidies. DCF would be authorized to promulgate emergency rules without the finding of an emergency, to administrate the child care quality improvement program, including eligibility requirements, payment amounts, and restrictions on how recipients may spend grant awards.

ALT 1	Change to Base
GPR	\$106,032,800
FED	<u>- 12,000,000</u>
Total	\$94,032,800

2. Adopt Alternative 1, but delay the effective date of the repeal of YoungStar provisions until the earlier of October 1, 2021, or the date on which DCF issues emergency rules to administer

the Child Care Strong program.

In addition, provide additional funding to the TANF allocation for direct care services to account for the increased cost of continuing YoungStar for several months at an estimated cost of \$1,600,000 per month in one of the following amounts: (a) \$4,800,000 FED for three months of YoungStar bonuses; (b) \$3,200,000 FED for two months; (c) \$1,600,000 FED for one month; or (d) no additional funding.

ALT 2	Change to Base
(a)	
GPR	\$106,032,800
FED	<u>- 7,200,000</u>
Total	\$98,832,800
(b)	
GPR	\$106,032,800
FED	<u>- 8,800,000</u>
Total	\$97,232,800
(c)	
GPR	\$106,032,800
FED	<u>- 10,400,000</u>
Total	\$95,632,800
(d)	
GPR	\$106,032,800
FED	<u>- 12,000,000</u>
Total	\$94,032,800

3. Adopt Alternative 1, but retain current law provisions that prohibit payment to one-star providers.

ALT 3	Change to Base
GPR	\$106,032,800
FED	<u>- 12,000,000</u>
Total	\$94,032,800

4. Adopt Alternative 1, but provide \$53,016,400 FED annually from Child Care Stabilization Grant funding received under ARPA, rather than GPR, to fund the Child Care Strong program during the 2021-23 biennium.

ALT 4	Change to Base
FED	\$94,032,800

5. Adopt Alternative 4, but retain current law provisions which prohibit payment to one-star providers. Further, delay the effective date of the repeal of YoungStar provisions until the earlier of October 1, 2021, or the date on which DCF issues emergency rules to administrate the Child Care

Strong program.

In addition, provide additional funding to the TANF allocation for direct care services to account for the increased cost of continuing YoungStar for several months at an estimated cost of \$1,600,000 per month in one of the following amounts: (a) \$4,800,000 FED for three months of YoungStar bonuses; (b) \$3,200,000 FED for two months; (c) \$1,600,000 FED for one month; or (d) no additional funding.

ALT 5	Change to Base
(a) FED	\$98,032,800
(b) FED	\$97,232,800
(c) FED	\$95,632,800
(d) FED	\$94,032,800

6. Maintain current law for the YoungStar program and adopt only the statutory changes under Alternative 1 to create the Child Care Strong program, but with the modification that Child Care Stabilization Grant funding of \$70,653,400 FED annually would support the program in the 2021-23 biennium.

ALT 6	Change to Base
FED	\$141,306,800

7. In addition to any of the funding alternatives (1 through 5), modify current law to direct DCF to pay YoungStar bonuses through the electronic benefit transfer system by way of parent payments to their chosen child care provider. Further, cap payments at the provider's market rate such that the sum of the YoungStar bonus, Wisconsin Share subsidy, and other payments by the parent cannot exceed the market rate charged by the provider. Require DCF to use existing funding for administration to implement the changes.

8. In addition to any of the funding alternatives (1 through 5), adopt the statutory changes in Alternative 7, but without setting a cap on payment at the provider's market rate. Instead, providers would receive the Wisconsin Shares subsidy and YoungStar bonus through the parent's electronic benefit transfer account. The YoungStar bonus would not be counted towards the provider's monthly fee. Require DCF to use existing funding for administration to implement the changes.

9. Take no action.

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