

*Public Policy Options  
for Early Care and Education*

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## **Alternative Policy Options for Child Care Subsidy Programs**

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## Wisconsin Child Care Research Partnership

The Department of Health and Human Services, Administration for Children and Families, Child Care Bureau began funding the *Wisconsin Child Care Research Partnership* (WCCRP) in October, 2000 as one of nine Research Partnerships across the United States committed to studying child care quality for low-income children.

University of Wisconsin-Extension, Wisconsin Department of Workforce Development-Office of Child Care, and Wisconsin Child Care Resource and Referral Network joined in partnership to assess the quality of child care in Wisconsin, with a particular focus on child care for low-income children. Principal Investigators for the Research Partnership include: Mary Roach, Diane Adams, Dave Riley, and David Edie.

Results of WCCRP findings are presented in a series of *Brief and to the Point* Issue Briefs. These results, as well as summaries of national research, are now shared in this new series on public policies for early childhood care and education.

Our aim with these Public Policy Options Papers is to be a fair broker of research-based knowledge about early care and education issues, and to be an objective presenter of alternatives and the likely consequences of public policy options.

## University of Wisconsin-Extension

Congress established Cooperative Extension in 1914 as a partnership among federal, state, and local governments.

“Quite simply, UW-Extension is the people of Wisconsin and their university working together to apply university knowledge and resources to the current needs of their families, professions, businesses and communities. Its practical, issue-focused, problem-solving education is designed to help local citizens and leaders improve the state's economy, protect its environment, enhance the viability of its communities, and enrich the quality of their lives and work.”

Kevin P. Reilly,  
Chancellor, UW-Extension

## Cooperative Extension...

- Is often cited as a premier example of a successful technology-transfer organization.
- Takes research-based knowledge from the university and makes it usable by the public and policy-makers. ***This series of Public Policy Options Papers provides one example of how we put research-based knowledge into action.***



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## What National Research Experts Are Saying...

### *Parents have less time for their children...*

“Profound social and economic transformations are posing serious challenges to the efforts of parents and others to strike a healthy balance between spending time with their children, securing their economic needs, and protecting them from the many risks beyond the home that they may have an adverse impact on their health and development.”



### *More families are living in poverty...*

“Changing parental work patterns are transforming family life. Growing numbers of young children are being raised by working parents whose earnings are inadequate to lift their families out of poverty, whose work entails long and nonstandard hours, and whose economic needs require an early return to work after birth of a baby.”

### *The early years matter...*

“Although there have been long-standing debates about how much the early years really matter in the larger scheme of lifelong development, our conclusion is unequivocal: What happens during the first months and years of life matters a lot, not because this period of development provides an indelible blueprint for adult well-being, but because it sets either a sturdy or fragile stage for what follows.”



- National Research Council and Institute of Medicine, *From Neurons to Neighborhoods: The Science of Early Childhood Development*, 2000.

## SECTION I. BACKGROUND INFORMATION: EARLY CARE AND EDUCATION

### TRENDS IN WISCONSIN PUBLIC POLICY FOR EARLY CARE AND EDUCATION

The first question for public policy is the extent to which early care and education should be a government concern:

- Should tax dollars be spent on services for young children and their families?
- Should families be expected to manage on their own?
- Could serious problems be prevented through investments in early care and education?
- Can poverty be reduced by investments in early care and education?

Over the past fifty years, several trends have contributed to public policy interest in early care and education:

- **Remarkable growth in the number of working mothers with young children:** In Wisconsin, the percentage of working mothers with children under age 6 has grown from 39 percent in 1976 to 68 percent in 2000, a figure higher than the national average of 59 percent. Nationally, over 10.7 million children (ages 0-5) with employed primary caretakers are regularly in non-parental care – about 6 in 10.
- **Rise in divorce and in poor single-parent families:** In Wisconsin, divorce rates doubled from 2.0 per thousand population in 1970 to 4.1 per thousand in 2000. By year 2000, over 18 percent of Wisconsin's children were living in single-parent

families. These trends raise concerns about potential negative consequences to children in these families.

- **Early identification and services for children with special needs:** This trend has led to provision of ameliorative services in inclusive settings. In Wisconsin, experts estimate that at least 2.5 children per thousand are born with delays and disabilities.<sup>1</sup>
- **Emergence of the child protection movement:** Demand for more thorough child protective services resulted from concerns about increasing reports of abuse and neglect of children. From 1990 to 1999, Wisconsin's number of reports of child maltreatment averaged over 44,000 per year.<sup>2</sup>
- **Increasing evidence of the importance of the early years in brain development:** A growing body of scientific research concludes that high quality early care and education can have positive long-term effects, particularly for children from low-income families.
- **Introduction of welfare reform:** Following concern that the welfare system was unintentionally creating a culture of poverty and dependency, welfare reform sought to move poor parents into the workforce, requiring more child care assistance.

## PUBLIC POLICY EFFORTS FOR EARLY CARE AND EDUCATION

Trends in early care and education have contributed to five key policy efforts nationally and in Wisconsin.

1. **Child care regulation.** Efforts to protect children in out-of-home care settings began to emerge in the 1940s and 1950s. Today, all states have licensing laws and rules to protect the health and safety of children. There is a growing emphasis on promoting positive child development, including cognitive development. Child care regulation policy has generally been a state responsibility. In Wisconsin, the Department of Health and Family Services licenses child care programs caring for more than three children. Local counties/tribes regulate smaller family child care programs that receive public reimbursement.
2. **Child care support for low-income families who work.** The budget for child care related to employment began to grow in the 1970s, and received a major boost in the 1990s as welfare reform initiatives were enacted nationally. While policy has often been focused primarily on “welfare” families, in recent years more focus has been placed on helping working low-income families obtain and maintain employment by assisting them in accessing and paying for child care services.
3. **Early intervention services for children with disabilities.** Federal mandates were enacted in 1975 as part of the Individuals with

Disabilities Education Act, Public Law 94-142, and later amended to require states to identify children with disabilities at an early age, to provide services during the first three years, and to provide school-based services for children from ages 3-5. Programs were encouraged to serve children in natural settings and to avoid segregation of children with disabilities. Wisconsin’s Birth to Three program and the statewide public school Special Education program for children ages 3-5 are examples of programs that serve this population.

4. **Early child development services to prepare children for school.** Head Start has been a national child development program focused on high-risk children in poverty since the mid-1960s. Although Head Start has a broader focus than school readiness, preparation for success in school is a major goal. Wisconsin has a comprehensive system, with 56 Head Start programs serving more than 16,000 children. There has also been increasing interest statewide in pre-kindergarten programs. As of 2002, 174 school districts (out of 415 districts with elementary schools) were operating 4-year-old kindergartens.
5. **Child care quality initiatives.** In recent years, the federal government and the states have become increasingly interested in the quality of child care received by children of working families, with particular emphasis on those children who are most at risk.

## SECTION II. WISCONSIN CHILD CARE SUBSIDY PROGRAM

### Outline of this Paper

- A description of Wisconsin's child care subsidy program
- What we know from Wisconsin research about child care subsidies
- What we know from related national research on child care subsidies
- General public policy background, both nationally and in Wisconsin
- Alternative policy options for Wisconsin's child care subsidy program

### A DESCRIPTION OF WISCONSIN'S CHILD CARE SUBSIDY PROGRAM

**Purpose:** The child care subsidy program, Wisconsin Shares, assists low-income families to pay for child care services. The program is administered by local Wisconsin Works (W-2) agencies and county or tribal human services agencies, which are supervised by the Wisconsin Department of Workforce Development. Wisconsin's strong work requirement in its W-2 program has led to a major shift from cash assistance for stay-at-home single parents to supportive services for families beginning or continuing employment. Child care is one of several support services Wisconsin provides to working low-income families, including Medicaid and BadgerCare health insurance, Food Stamps, help in child support collection, and earned income tax credits. The subsidy program is intended to help low-income families afford child care in their communities through a voucher system.

**Population served:** Any family in need is encouraged to apply for a child care subsidy. Low-income families with working parents are generally eligible for child care subsidies. Families participating in W-2 employment programs are also eligible. Teen parents from low-income families are eligible for assistance while they attend school. Low-income parents who are working and enrolled in courses to maintain employment may also be eligible for assistance. Families must have incomes below 185 percent of poverty to be initially eligible, and can continue to be eligible until income exceeds 200 percent of poverty. Waiting lists for child care subsidies were eliminated statewide in March, 1997.

**Parent choice and co-payment:** The subsidy program is designed to provide parents with a wide range of choices in selecting child care settings for their children. Parents can choose licensed child care centers, licensed family day care homes, or more informal child care settings, as long as they meet basic health and safety standards. Most parents are required to share the cost of child care through a co-payment requirement. The co-payment amount is calculated on a sliding scale based on family size and income, the number of children served, and type of child care setting selected.

**Child care provider regulation:** The subsidy program requires that participating child care providers meet health and safety standards and undergo criminal background checks in order to receive reimbursements. Child

care providers must be licensed by the state, certified by county or tribal government, or operated by a public school to be eligible for reimbursement. Although Wisconsin's subsidy program requires the health and safety regulation of providers, it does not guarantee that high quality services and early care and education will be provided.

**Reimbursement rates:** Established reimbursement rates are based on child care prices in local child care markets. Each county and tribe sets maximum reimbursement rates, after conducting annual surveys of licensed child care providers. Reimbursement rates are set so 75 percent of child care slots can be purchased at or below a maximum rate.

## **WHAT WE KNOW FROM WISCONSIN RESEARCH ABOUT CHILD CARE SUBSIDIES**

The Wisconsin Child Care Research Partnership, funded by the Department of Health and Human Services and directed by University of Wisconsin-Extension, has been examining Wisconsin's child care subsidy program as part of a 3-year research grant. The research suggests several public policy implications for the subsidy program:

- **The subsidy system is reaching its intended participants.** Families using the subsidy program are primarily single parents, very poor, and from all parts of the state. Over 90 percent of families receiving subsidies are single-parent families, and about two-thirds of subsidized families earn less than \$1,500 per month (less than \$18,000 per year).<sup>3</sup>
- **The children whose child care is funded through the subsidy**

**program comprise a significant portion of Wisconsin's child care market.** Overall, the subsidy program provides financial support to 23 percent of regulated child care slots statewide. This percentage suggests that working low-income families, primarily headed by single parents, comprise a significant portion of Wisconsin's child care customers, who may be highly dependent on the subsidy program.<sup>3</sup>

- **Subsidy payments may have significant impact on the financial status of child care programs in Wisconsin.** The vast majority of regulated child care providers in Wisconsin participate in the subsidy program. Out of 10,500 regulated providers, about 6,000 providers receive payments each month, and over 8,000 providers receive payments over a 12-month period.<sup>4</sup> With over \$300 million per year budgeted for subsidies, the subsidy program has a clear economic impact on the child care market in Wisconsin.
- **The financial impact of the subsidy program is likely to be most significant to programs with a high percentage of subsidized children.** Just over 20 percent of centers exceed a density of 50 percent of enrolled children funded primarily by child care subsidies. Milwaukee centers had over twice the percentage of subsidized children enrolled as the state as a whole (58 percent density in Milwaukee compared to 28 percent statewide). The subsidy program's economic impact is likely to be most prominent in Milwaukee because of

the large number of families and providers that benefit from the child care subsidy program. Some quality indicators raised concerns about quality at high density centers. Research indicated that programs with the highest density of subsidized children employed the lowest percentage of teaching staff with degrees and had the highest annual rate of staff turnover.<sup>4</sup>

■ **The subsidy program is not simply an urban program.**

While about half of subsidized children live in Milwaukee, the program serves every county in the state. In fact, the program may have a more concentrated effect in many rural counties. One way of measuring potential impact is to look at what percent of a county's overall child care capacity is funded through the subsidy program. Subsidies cover the highest percent (39-50 percent) of child care capacity in four rural counties, and of the sixteen counties where 28-38 percent of child care capacity is subsidized, 14 of those counties are rural counties.<sup>3</sup>

**Wisconsin Child Care Subsidy Facts:**

- Children and families served: 28,117 families and 49,458 children (June 2002)
- Family composition: 91% of children served come from single-parent families (June 2002)
- Family income (June 2002):
  - 47.5% of families served have incomes below poverty
  - 88% of families served have incomes below 165% of poverty
  - 61% of families have incomes below \$18,000 annually
- Ages served: 67% of children served are under 6 years old (June 2002)
- Child care settings (June 2002):
  - 77% of children served are in state licensed child care settings (centers or homes)
  - 21% of children are in county certified home settings
  - 2% are in public school settings
- Annual budget: \$306 million (July 2002-June 2003)
- Subsidy voucher payments: \$68 million in 2<sup>nd</sup> quarter of 2002
- Cost sharing (June 2002):
  - 9% of child care costs are paid by the family co-pay
  - 91% of child care costs are paid with public funds

## WHAT WE KNOW FROM RELATED NATIONAL RESEARCH ON CHILD CARE SUBSIDIES

### Research on Child Care Subsidies and Work

- **Access to child care makes a difference.** The Child Care and Employment Turnover study found that mothers who did not have convenient access to a center-based child care program were nearly twice as likely to leave their jobs as those who had convenient child care. Child care availability had the greatest impact on moderate-wage mothers.<sup>5</sup>
- **Child care subsidies encourage employment.** A General Accounting Office study predicted that reducing child care costs increases the likelihood that poor, near-poor, and non-poor mothers will work. The report estimates that providing a full subsidy to mothers who pay for child care could increase the proportion of poor mothers who work from 29 to 44 percent, and that of near-poor mothers who work from 43 to 57 percent. The study suggests that providing financial assistance to help low-income families pay for child care may be a key factor that encourages low-income mothers to seek and keep jobs.<sup>6</sup>

### Research on Child Care Investment and Economic Return

- **Investment in subsidies means net gain for taxpayers.** A recent North Carolina study examined the economic returns from the child care subsidy program there. The study found that families that receive child

care subsidies are able to go to work, and as a result, generate additional tax income for the government that actually offsets expenditures for child care. This report reveals that in 1993 a North Carolina family earning around \$15,000 per year, and receiving a monthly child care subsidy of \$212 and an Earned Income Credit of \$92 per month generated \$351 per month in federal, state, and local tax revenue -- a net gain of \$47 per month. This finding shows that increasing the amount available for child care subsidy can result in a net gain for taxpayers and for society as a whole.<sup>7</sup>

### Long-term Effects of High Quality Early Care and Education

- **Perry Preschool program.** Several longitudinal studies, including the High/Scope Perry Preschool study, indicate that high-quality early care and education for disadvantaged children is a highly effective way of improving children's life chances. Disadvantaged children who attended a high quality preschool program were more likely to graduate from high school, enroll in post-secondary education, and find themselves employed. They were less likely to be assigned to special education classes, to be arrested for crimes, to become teenage parents, or to receive welfare assistance. The study found that costs to taxpayers of not operating a high quality program for disadvantaged children were six times higher than costs of providing the intervention.<sup>8,9</sup>

■ **Abecedarian project.** In a recent paper on the Abecedarian project, Campbell and Ramey reported that low-income children who were enrolled in an intensive early education child care center as preschoolers had higher intellectual and academic gains through age 12 than non-enrolled children. The earlier the children were enrolled, the more enduring the gain. This study represents one of the broadest and most long-lasting benefits reported to date for an early childhood program.<sup>10</sup> Wisconsin's Early Childhood Excellence Initiative was based partially on the Abecedarian project, and demonstrated an ability to substantially improve the quality of care provided to children from low-income families in Wisconsin.<sup>11</sup>

■ **Chicago Child-Parent Center.** The Chicago Child-Parent Center study, directed by Arthur Reynolds at the University of Wisconsin, found substantial economic benefits from a comprehensive early childhood program in the Chicago public schools. The study found that at age 20, participants were more likely to have finished high school than children who were not in the program. They were also less likely to have been held back in school, less likely to have needed remedial help, and less likely to have been arrested. It is estimated for every dollar invested, the return was \$7, based on the reduced costs of remedial education and justice system expenditures, as well as the increased earnings and projected tax revenues for participants. A distinguishing feature of this study is that it is the first cost-benefit analysis

of a large-scale (over 1,500 children) comprehensive early childhood program.<sup>12</sup>

National research suggests that investments in child care subsidies:

- Increase the workforce participation of low-income mothers
- May result in a net gain for taxpayers
- May prevent more costly long-term problems if child care is of high quality

It should be noted that the primary function of subsidy programs has been to help low-income families afford child care services in a private market. However, a body of research suggests that providing the subsidy may be cost-effective by itself, and could potentially be even more cost-effective if the child care provided meets high quality standards.

## GENERAL PUBLIC POLICY BACKGROUND

### National Policy Context

Over the last two decades, government provision of subsidies to help low-income families afford child care services grew dramatically, with bipartisan support. Funding for subsidies has been targeted primarily to low-income parents who are working or who are preparing to enter the workforce. Public funding for child care has come primarily from federal and state governments through welfare-related programs. In the 1990s two major federal funds emerged to support states in their child care subsidy efforts:

- Child Care and Development Fund (CCDF)
- Temporary Assistance to Needy Families (TANF) Block Grant

### State Policy Context: Wisconsin

Wisconsin Works (W-2), Wisconsin's welfare reform initiative, begun in 1996 legislation, made child care a cornerstone of its strategy to help low-income families become part of the workforce, to create work incentives, and to support low-income families in the workforce. Wisconsin was a national leader in developing a single child care subsidy funding stream which did not distinguish between families "on welfare" and "working families" in determining eligibility.

Wisconsin developed one of the most aggressive work requirements in the country in its W-2 program. The program required families receiving welfare payments to work immediately if they were capable of working, and offered case-management assistance

and support services if families had significant obstacles to entering the workforce. The program also provided child care assistance to the working poor. Due to flexibility with federal funding, Wisconsin ended policies that gave child care preference to "welfare" families, and provided equal access to child care assistance for low-income families already working.

Wisconsin developed a single comprehensive program intended to meet work-related child care needs of all eligible low-income families requesting service. The program was designed to have no waiting lists for services. In order to serve a broad population of eligible families, Wisconsin created a comprehensive set of policies:

- **Eligibility:** Eligibility levels at the onset of W-2 were more restrictive than policies prior to 1996, but the policy was adjusted in the 1999-2001 budget so that individuals are initially eligible when income is at or below 185 percent of poverty, and continue to be eligible until income exceeds 200 percent of poverty.
- **Co-payment:** Family co-payment requirements were significantly increased at the onset of W-2, so that parents would share more of the cost of child care services. Initial co-pay levels were adjusted in the 1999-2001 budget so that families would not pay more than 12 percent of income.
- **Reimbursement rates:** Reimbursement rates were set so 75 percent of available child care slots in a county could be purchased by

the maximum reimbursement rate. The principle was that reimbursement rates should mirror prices set in the private market.

- **Waiting lists:** Subsidy policies were established with the intention that all eligible families requesting assistance would be served. Wisconsin child care subsidy waiting lists were eliminated in 1997.
- **Regulation of care purchased:** Wisconsin set policies so that child care purchased by the subsidy met specified standards for health, safety, and child development for the protection of children. In order to receive child care subsidy payments, programs must be licensed by the state, certified by a county, or operated by a public school.

Policies governing the subsidy program were the result of significant policy debate and policy tradeoffs within state government. The resulting child care subsidy program saw dramatic increases in customer demand and usage. To meet the growing requests for child care subsidies, Wisconsin's child care subsidy budget grew from \$56 million in state fiscal year (SFY) 1995-96 to \$306 million in SFY 2002-03. Since September, 1997, demand for child care subsidy assistance grew steadily, with the number of children served increasing 6,100 annually, and cost increases averaging nearly 22 percent per year. As of June, 2002, the subsidy program served 49,458 children, compared to 18,671 children in September, 1997, five years earlier.

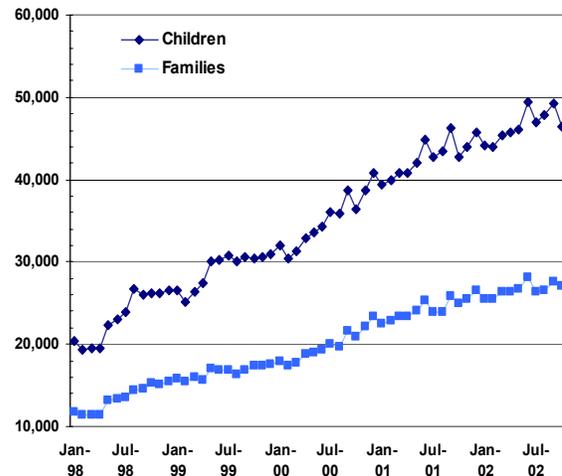
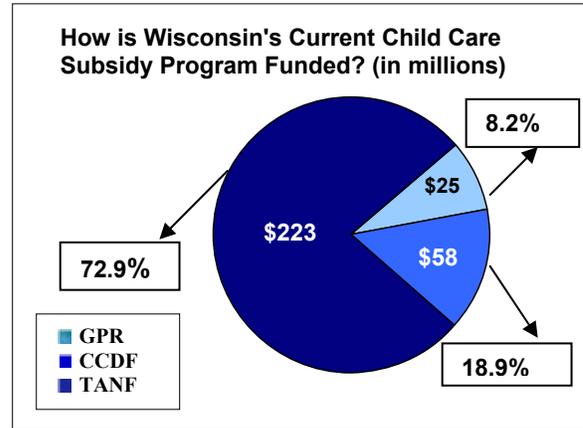


Figure 1. Wisconsin Shares Child Care Subsidy Program: Children and Families Served Jan 1998 – July 2002

### How did Wisconsin fund the increase in child care spending?

- **Reduction in cash assistance payments and increases in CCDF funding.** The aggressive work policy led to declines in cash assistance (“welfare”) caseloads that exceeded the expectations of nearly all policy experts. Reduction in cash assistance caseloads, first under the Aid to Families with Dependent Children (AFDC) program, and then under the Temporary Assistance for Needy Families (TANF) program, freed up unprecedented funding for support services. Wisconsin was able to increase child care budgets primarily due to the availability of TANF funding, dramatically lower cash assistance payments, and increases in the Child Care and Development Fund (CCDF). Wisconsin has increased spending for child care primarily with federal funding only.

- Minimal use of state General Purpose Revenues (GPR) funds.**  
 The only state GPR used is the amount required to draw down federal funds. In fact, a portion of the CCDF matching dollars is drawn down by local child care spending, rather than by state spending. Wisconsin managed to fund a \$250 million expansion (a 446 percent increase) of the child care subsidy program over five years with minimal use of state funds. Only 8.2 percent of the 2002-03 budget is funded with state money, and those GPR funds are required to draw down federal funds. The chart below shows the funding sources for the child care subsidy in the SFY 2002-03 budget.



### Funding Sources for the Child Care Budget (SFY 2002-03)

Funding Source	Amount	Percent of total
State general purpose revenue (GPR)	\$25 million	8.2 %
Federal Child Care and Development Fund (CCDF) *	\$58 million	18.9%
Temporary Assistance to Needy Families (TANF)	\$223 million	72.9%
<b>Total</b>	<b>\$306 million</b>	<b>100%</b>

\* Note: \$58 million of CCDF funds are budgeted for the child care subsidy program. Another \$33 million are spent on child care infrastructure and quality improvement programs.

Child care is the leading use of TANF funds in the SFY 2002-2003 budget, with 70 percent of TANF funds available budgeted for child care (\$223 million for child care out of the total TANF allocation of \$316.6 million).

### What public policy issues concerning the child care subsidy program does Wisconsin face?

Increases in child care subsidy usage and spending have slowed somewhat. However, cost for the existing program continues to climb. It may not be prudent to depend on increased federal funds to cover future increases, especially if the federal budget faces declining revenues and growing deficits.

TANF funds are unlikely to be sufficient to meet increases in subsidy demand, since TANF funding may be flat or declining over the next few years. Although political decisions at the national level on CCDF budget levels may yield some increases in funding to the states, CCDF funds are not likely to be sufficient to meet increasing demand for child care subsidies in Wisconsin. This potential shortfall is occurring at a time when Wisconsin faces a large structural deficit in its state budget, a problem shared by many other states. Below are alternative policies for addressing child care subsidy policy issues, framed by one central policy question.

## SECTION III. ALTERNATIVE POLICY OPTIONS FOR WISCONSIN'S CHILD CARE SUBSIDY PROGRAM

### Current Policy Question:

**As demand for child care subsidies exceeds available funding, how might the state respond?**

*The following policy options are based on the assumption that demand for child care subsidies will continue to rise above levels currently funded in the 2002-03 budget, thus requiring a public policy response.*

### **Policy Alternative #1: Make No Change or Reduce Subsidy Funding**

Under this alternative, annual funding would remain at \$305,550,000, the budgeted level for SFY 2002-03, or at a reduced funding level.

### **Potential Consequences:**

- **Reduces spending, helping with state budget deficits:** This alternative reduces spending, putting less strain on federal and state funding sources, and helping to address the state's structural deficit.
- **Ends Wisconsin's commitment to serving all eligible working low-income families.** This alternative would reduce Wisconsin's commitment to serve all families who need child care subsidies. If the subsidy budget is cut, it is likely that thousands of working families would be placed on waiting lists and would no longer receive child care help,

decreasing the likelihood of sustained employment, and potentially increasing W-2 caseloads. The families most affected would likely be single-parent families with incomes under \$18,000 per year. If demand for subsidies continues to grow, adjustments to subsidy policies may need to be substantial, in order to stay within budget limits.

- **Impacts the child care industry:** Reductions in funding or flat funding for the subsidy could have negative effects on the child care industry, particularly for those programs serving the highest percentage of subsidized children.
- **Requires adjustments to subsidy program:** Subsidy policies would have to change, either by setting up waiting lists for child care subsidies or by adjusting program policies, due to insufficient funding to meet demand. Changes might include:
  - **Waiting lists:** If waiting lists are created, the original goals of Wisconsin's W-2 welfare reform program may be compromised. Low-income working families placed on waiting lists may cycle onto W-2 cash assistance due to their inability to afford child care.

Or families on waiting lists may be forced to find makeshift child care arrangements in order to continue employment, arrangements which could result in loss of child development benefits or even damage to children.

- **Higher co-payments:** Higher co-payments would place more financial stress on low-income families, and could force children into substandard, unregulated care.
- **Restricted eligibility levels:** Lower eligibility thresholds could deny subsidy access to currently eligible low-income families.
- **Reduced reimbursement:** Lower reimbursement rates could place financial strain on child care programs and providers that are often fiscally unstable to begin with.

If demand for subsidies increases at a high level, changes in these policies might need to be drastic in order to avoid waiting lists. It is possible that policy changes would need to be implemented in addition to waiting lists.

**Policy Alternative #2:  
Increase Funding for Child Care  
Subsidy**

This policy option would increase child care subsidy funding to be sufficient to cover estimated usage, without changes in subsidy policy. While it is possible that federal funding could cover the necessary budget increases, given the

national budget deficit, it is unlikely that sufficient federal funds will be available. State General Purpose Revenue (GPR) would likely be needed. Possible sources for funding include:

- **Allocate more federal funds.** The primary funding sources have been Temporary Assistance to Needy Families (TANF) and the Child Care and Development Fund (CCDF). As noted previously, child care use of TANF may be reaching its limits. More CCDF can be allocated to the subsidy program only if additional funding is budgeted nationally or if funds are shifted from budget appropriations for other child care uses.
- **Allocate more GPR.** If \$10 million more in GPR is budgeted for child care subsidies at the state level, Wisconsin could also draw at least \$13 million additional federal CCDF funds at the state level. Currently, up to \$17 million in federal matching funds annually are drawn down by local government spending, and the federal funds are distributed to local units of government, such as technical college and public schools, rather than being allocated to the child care subsidy program. Additional GPR may be needed to meet demand, depending on spending projections.
- **Levy specialized taxes.** Other states have levied special taxes on tobacco products or beer, with those revenues designated for child care.
- **Close tax exemption loopholes.** Revenue could also be increased by closing tax exemption loopholes.

### **Possible Consequences:**

- **Child care assistance would continue to be provided to eligible low-income working families.** With adequate funding, the original goals of the W-2 program could continue to be met. The program intends to provide supportive services needed to help low-income parents enter the workforce and sustain employment.
- **Increasing state spending could negatively affect state budget deficits.** Increased GPR spending could put more strain on a state budget already facing a structural deficit.
- **Using more federal TANF funding for child care could negatively affect other services.** TANF funds a wide range of services such as cash assistance, job training, and kinship care. If federal TANF appropriations do not increase, child care budget increases would come at the expense of other programs and services.
- **Shifting federal CCDF to subsidy use could negatively affect efforts to improve child care quality.** While reallocating CCDF funds to the subsidy program could help meet demand for subsidies, it would undo recent efforts to improve child care quality. Less funding would reduce systematic efforts to recruit and retain a qualified workforce, to strengthen child care regulation, to improve quality in child care settings, and to provide information and referrals for consumers.

- **Allocating more GPR, and the CCDF matching funds that more GPR would draw down, could result in the reduction or elimination of pass-through CCDF funding to local governments.** Local communities have benefited by having access to millions of CCDF funds that could be drawn down by local match dollars. In 2003, \$17 million is let in contracts to local communities. If all CCDF funds available to Wisconsin are spent at the state level, the local funding program would likely end or be drastically reduced.

### **Policy Alternative #3: Explore Tax Credits**

This alternative would create or increase child care tax credits in Wisconsin. Options for tax credits could include dependent care credits, earned income credits, or employer credits.

- **Dependent care credits.** For a short period in the mid-1980s, Wisconsin instituted a state dependent tax credit, at a percentage of the federal child care tax credit, providing tax relief to working families with child care expenses. To target low-income families today, such a credit could include refundable credits for families with limited tax liabilities, and it could be capped at a specified income level.
- **Earned income tax credits.** Wisconsin could expand its existing earned income tax credit program that targets low-income families.

- **Employer tax credits.** Wisconsin could institute state credits that encourage employers to support the child care needs of low-income families.

after-the-fact reimbursement for expenses. Such a mechanism may not help low-income families with front-end child care expenses and cash flow challenges.

**Possible Consequences:**

**Policy Alternative #4:  
Make Efficient Use of Existing Funding**

- **Tax credits could negatively impact the state budget deficit.** Reduced tax revenue could affect the state budget at a time of serious funding shortfalls.
- **Child care tax credits could reduce pressure on the subsidy program.** With reasonable tax credits or employer support, some families may choose not to participate in the subsidy program, if they can manage child care expenses with other assistance. However, tax credits might have to be dramatically increased and adjusted to meet the child care costs of low-income families.
- **Tax credits may be efficient.** Tax credits may be a more efficient way to transfer benefits to low-income populations, since it builds on the tax system, and is not based on time-consuming means tests and eligibility processes. However, current tax credits do not help low-income families with limited or non-existent tax liabilities.
- **New tax credits could complicate the tax system.** Adding additional tax credits could complicate efforts to simplify the tax system.
- **Tax credits may not provide timely help.** Tax credits usually provide

Wisconsin uses funding for many early care and education efforts, but the funding streams are often highly restrictive, many based on federal rules and policies.

Funding sources include pre-kindergarten public school education, Head Start, federal nutrition programs, special education services for children ages 3-5, and the Birth to 3 program. Often, multiple funding sources serve the same families, but are operated separately. Some funding sources are for part-day services, making it difficult for working parents to meet full-day needs.

This alternative would seek to blend or combine funding and merge programs, to foster efficient use of resources, to reduce duplication of services, and to improve access for children and families. This alternative could also provide diverse funding to early care and education programs, reducing the incidence of children leaving programs because their parents lost eligibility for child care subsidy funds.

Many states have allocated pre-kindergarten funding to child care settings to improve the educational programming and the quality and stability of child care services. Several states have created children's cabinets

or divisions of government to focus on integrated use of resources for early care and education.

This alternative would seek public policy efforts to maximize existing funding in a coherent delivery system. However, complexity of creating a coherent system of services with inter-agency cooperation across several departments of government should be emphasized, as well as problems of implementation at the local level.

**Possible Consequences:**

- **Additional child care opportunities for low-income families.** By combining funding streams, additional children could be served in full-day settings that support employment of low-income parents.
- **School readiness:** Combined or coordinated funding sources could strengthen educational preschool efforts in child care settings, improving school readiness for low-income families.

## Summary

This report examined Wisconsin's child care subsidy program:

- Looking at Wisconsin-based and nationwide research
- Examining the public context, and
- Providing a range of policy options

Decisions on these issues may have significant impact on children, families, providers of early care and education services, employers, and Wisconsin communities. Public policy issues will be addressed in the state political process, hopefully with a careful review of data and research. Regardless of the results, local municipalities, the private sector, and individual citizens can play a role in shaping policies and services that affect so many children and families.

The recent report by the National Research Council and the Institute of Medicine, *From Neurons to Neighborhoods: The Science of Early Childhood Development*, states the challenge for society well. The report concludes that the convergence of advancing knowledge about child development and changing circumstances for young children "...calls for a fundamental reexamination of the nation's responses to the needs of young children and their families, many of which were formulated several decades ago and revised only incrementally since then."<sup>13</sup> The report points to a large body of scientific knowledge that has been developed by nearly a half century of research on children from birth to five, and urges scientists, policy makers, business and community leaders, practitioners, and parents to work together to identify and sustain effective policies and practices.

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***The Wisconsin Idea has always encouraged a strong connection between research knowledge, the informed involvement of its citizenry, and the democratic process in forming sound public policy. This paper is intended to be a contribution toward that effort.***



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