



## Wisconsin's subsidy program

The child care subsidy program, **Wisconsin Shares**, is administered

by local counties, tribes and Wisconsin Works (W-2) agencies, and supervised by the Wisconsin Department of Workforce Development (DWD). The program assists families whose incomes are less than 200% of poverty to pay for child care services. Parents choose the type of care and share the cost through a co-payment, on a sliding scale based on family size, income, and the type of child care selected. Waiting lists were eliminated in March, 1997.

In order to be eligible for reimbursement, child care providers must be licensed by the state, certified by county or tribal government, or operated by a public school. Reimbursement rates, based on child care prices in local child care markets, are set so that 75% of child care slots can be purchased at or below this rate.

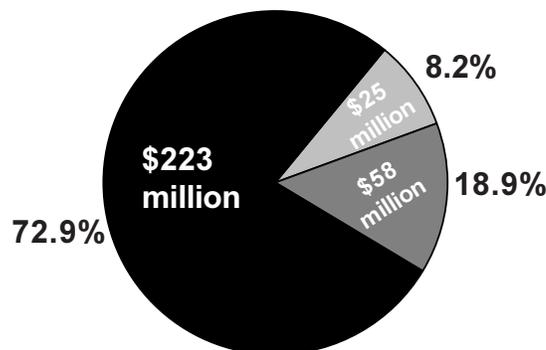
### What we know from Wisconsin-based research

- **The subsidy system is reaching its intended participants.** Over 90 percent of families using the subsidy system are single-parent families, and over two-thirds earn less than \$1,500 per month.
- **Subsidized child care comprises a significant portion of Wisconsin's child care market.** Approximately 23% of regulated child care slots statewide are used by families who depend on the subsidy program.
- **Subsidy payments may have significant impact on the financial status of child care programs.** Out of 10,500 regulated providers in Wisconsin, about 6,000 receive payments each month, and over 8,000 different providers receive payments during a year.
- **Financial impact of the subsidy program is likely to be most significant for programs with a high percentage of subsidized children.** Just over 20% of centers exceed a density of 50% of enrolled children, funded by child care subsidies. Programs with the highest density of subsidized children employ the lowest percentage of teachers with degrees and have the highest annual rate of staff turnover.
- **The subsidy program is not simply an urban program.** Although about half of subsidized children live in Milwaukee, the program serves every county in the state. Of the 16 counties where over one-quarter of child care capacity is subsidized, 14 are rural.

## Wisconsin Child Care Subsidy Facts (June 2002)

- Children and families: 28,117 families and 49,458 children
- Family composition: 91% of children come from single-parent families
- Family income:
  - 47% below 100% of poverty
  - 88% below 165% of poverty
- Ages served: 67% of children are under 6 years
- Child care settings:
  - 77% are in licensed child care (centers or homes)
  - 21% are in county certified homes
  - 2% are in public school settings
- Annual budget: \$306 million (July 2002-June 2003)
- Subsidy payments (2<sup>nd</sup> quarter): \$68 million
- Cost sharing: 9% paid by family co-payment; 91% paid with public funds

### How Is Wisconsin's Current Child Care Subsidy Program Funded?



■ GPR	State General Purpose Revenue (GPR)
■ CCDF	Federal Child Care and Development Fund (CCDF)
■ TANF	Federal Temporary Assistance for Needy Families Fund (TANF)

### Current Policy Question:

**If 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.

# Alternative Policy Options for Child Care Subsidy and Possible Consequences

## 1. MAKE NO CHANGE OR REDUCE SUBSIDY FUNDING

This alternative would maintain the current level or reduce state child care funding.

### *Possible Consequences:*

- **Capping child care subsidy spending at or below current levels could make resources available for other budget priorities.**
- **Failure to meet demand could end Wisconsin's commitment to serve all eligible working families.** Depending on demand, potentially thousands of eligible working families would not receive child care help, decreasing the likelihood of their sustained employment, and potentially increasing W-2 caseloads. Single-parent families with incomes under \$18,000 per year would be the families most likely affected. If demand continues to grow, adjustments to policies may be substantial.
- **Insufficient funding would require adjustments to the subsidy program:**
  - Waiting lists might need to be created
  - Parent co-payment might need to be increased
  - Eligibility levels might need to be restricted
  - Reimbursement rates might need to be reduced

## 2. INCREASE CHILD CARE SUBSIDY FUNDING

This alternative would increase funding for child care subsidies. Sources for increased funding could include: (a) allocation of more federal funds, (b) allocation of more state revenue, (c) levy of specialized taxes, and/or (d) closing of tax exemption loopholes.

### *Possible Consequences:*

- **Child care assistance could continue to be provided to all eligible low-income working families that apply.** The original goals of Wisconsin Works (W-2) could continue to be met.
- **Increasing state spending could negatively affect state budget deficits.** Increased GPR spending could put additional strain on a state budget already facing a structural deficit.
- **Using more TANF or CCDF funding for child care could negatively affect other services.** TANF funds are used for a wide range of services including child care, cash assistance, job training, and kinship care. If TANF funding remains flat, child care budget increases would come at the expense of other programs and services. Shifting more CCDF funding to subsidy use would negatively effect efforts to stabilize and improve child care quality in Wisconsin.

## 3. EXPLORE USE OF TAX CREDITS

This alternative would create or increase child care tax credits in Wisconsin. Options include: (a) offer state dependent care credits for families with limited tax liabilities, capped at a specified income level; (b) expand earned income tax credits; (c) create employer tax credits that encourage employers to support the child care needs of low-income families.

### *Possible Consequences:*

- **Tax credits could negatively impact state budget deficits.** Reduced revenue could affect the state budget at a time of serious funding shortfalls.
- **Child care tax credits could reduce pressure on the subsidy program.** If families can manage child care expenses with other assistance, reasonable tax credits or employer support, they may choose not to participate in the subsidy program. However, tax credits may not be an effective way to meet the financial needs of low-income families facing immediate child care costs.
- **Tax credits may be more efficient.** Tax credits may be a more efficient way to provide assistance to some families than a means-tested subsidy program.
- **New tax credits could complicate tax policy.** Additional tax credits could complicate efforts to simplify the tax system.

## 4. MAKE EFFICIENT USE OF EXISTING FUNDING

This alternative would seek ways to combine funding and merge programs, to foster the efficient use of resources, to reduce duplication of services, and to improve access for children and families. Funding sources include child care, pre-kindergarten public school education, Head Start, Special Education services for children ages 3-5, and the Birth to 3 program for children with disabilities. However, complexity of merging funding streams should not be underestimated and objectives may be difficult to achieve in the short term.

### *Possible Consequences:*

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

This series highlights research-based knowledge, alternatives, and likely consequences of public policy options for early care and education.



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