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## **Increasing Child Care Rates and the Rate Setting Process Under the Wisconsin Shares Program**

by John Pawasarat and Lois M. Quinn, University of Wisconsin-Milwaukee Employment and Training Institute, April 2002

The Wisconsin Shares program provides financial payments to child care vendors serving lower-income families in the state. The subsidy program was created in 1995 to aid eligible families needing child care help in order to work. This technical assistance paper was requested by Milwaukee County to examine the increases in child care rates and costs of the subsidy program. The report explores the rate structures used to pay providers for subsidized care from 1995 to 2002 and reviews five years of administrative data files on child care subsidy payments to help identify policy and administrative issues relating to operation of the program in Milwaukee County.

Most of the regulations governing the Wisconsin Shares program are established by state and federal legislation and administrative rules. The program is funded by the federal Temporary Assistance to Needy Families (TANF) and Child Care and Development Fund programs, along with state general tax revenues and matching funds. The county is charged with authorizing child care services for eligible families, certifying non-licensed child care providers, paying subsidies to providers, and setting child care payment rates based on county surveys of market rates.

### **Findings**

The county has responded to federal and state financial incentives to upgrade day care capacity and the licensed and accreditation status of providers for the Wisconsin Shares program:

- The number of families receiving subsidized care tripled from 1996 to 2001.
- Subsidies to Milwaukee County child care providers now total over \$2 million a week.
- Over a 5-year period, the capacity of licensed group centers more than doubled in Milwaukee's poorest neighborhoods and increased 28 percent in the rest of the county.
- The central city neighborhoods saw a quadrupling of licensed family centers.

At the same time, government expenditures for child care have shown substantial increases. Costs for subsidized child care have reached levels that may be unaffordable for most lower-income working parents:

- As of 2002, accredited licensed group day care centers may charge \$231 per week, or \$12,012 for full-time, year-round care for children under age 2, and \$200 a week, or \$10,400 for year-round care of children aged 2 and above. By contrast, the average entry-level job pays \$16,120 in the Milwaukee metropolitan area. The cost of having two preschoolers in licensed care exceeds the earnings potential of most low-income mothers.

- The allowable hourly charge for care of one schoolage child in a licensed family home has risen from \$2.93 in 1995 to \$5.83 in 2002 (and \$6.42 if the provider is accredited).
- Licensed family providers receive widely varying subsidy rates even though all face the same state regulations as to the ages and numbers of children they can serve. In 2001 weekly rates paid to non-accredited licensed family providers ranged from \$75 to \$190 for care of children under age 2 and from \$65 to \$175 for care of other preschool and schoolage children.
- Similarly, weekly rates paid to non-accredited licensed group providers in 2001 ranged from \$140 to \$200 for care of children under age 2 and from \$87.50 to \$182 for care of other preschool and schoolage children.
- When analyzed by neighborhood, child care providers in the central city's poorest neighborhoods reported the highest rates. In May 2001, over half of group center slots for children aged 2 and above in the central city neighborhoods charged at or above the county's maximum allowable rates. Outside the central city neighborhoods, only 25 percent of slots for subsidized children charged at the maximum rates.
- A comparison of child care rates for 1996 and 2001 reported on the county's annual market survey of child care providers showed a 50 percent increase in the median rate for the care of 2-12 year olds -- more than four times the rate of inflation (11.7 percent) for the period. Rates increased at a much higher percentage than in other Wisconsin urban counties and rural counties.

### **Why Have Subsidy Costs Increased**

The child care subsidy expenditures in Milwaukee County have increased for the several reasons:

- Subsidy expenditures increased because reported market rates have escalated much faster than the rate of inflation since 1995. A close examination of the market survey suggests that there may be serious overestimates of market costs due to errors in completing the survey.
- Increasingly, vendors without paying customers charge at the highest rates allowable, while many lower-cost vendors with market driven rates are paid at far lower rates. The current child care payment policy provides incentives for setting rates high so as not to serve unsubsidized families, since providers without subsidized customers are allowed to bill the county at the highest rates.

In 1995, 41 licensed group providers with 1,897 child care slots reported that they had not served three unsubsidized families at their "regular" private rates within the last six months. By 2000, 96 licensed group providers with 5,654 slots reported that they had not had three regular paying clients within the past six months.

- Subsidy costs increased in part due to changes in the license status of providers. The number of licensed family providers has grown dramatically and the number of accredited providers increased at both the group and family level, while the number of lower-cost certified providers has not grown.
- Costs increased because the subsidy program is reimbursing vendors who bill at the highest rates while paying few vendors who bill at the lowest rates. While only 25 percent of providers surveyed in Milwaukee County charge at or above the highest allowable rate, about half of subsidized children are billed at the highest rate.
- Shifts in the characteristics of the families in the subsidy program have occurred that increased costs, including more infants in care, more hours of care contracted per child, and larger families served with more children in care and lower co-payment requirements.

## **Recommendations**

Increasing child care rates impact state funding required for the Wisconsin Shares subsidy program, reduce the likelihood that the thousands of Milwaukee County families eligible for child care assistance will receive aid, and may also limit the availability of affordable child care for unsubsidized employed mothers. Two changes to the rate setting process could remedy much of the rate inflation phenomenon. Specifically,

- Vendors without paying customers could be reimbursed at a prescribed rate (e.g., the 25<sup>th</sup> percentile of the market rate). This would discourage child care vendors from refusing paying customers in order to obtain higher subsidy rates. Currently, vendors charging affordable rates below the market average are only paid at the rate they charge paying clients and even then minus the subsidized families' co-payments. Eliminating co-payments for vendors who charge low rates might also help control rate inflation.
- A more rigorous rate survey could eliminate much of the vendor confusion that appears evident in the rate reporting and resulting rate inflation. The survey should require all current vendors to provide a complete roster (minus family names) of all children in full-time care without Wisconsin Shares subsidies for the most current four-week period, including each child's date of birth, hours in care, amount paid and rate at which the child was charged. This unsubsidized population would be the basis of the rate survey. The small number of providers not in the county subsidy program would be surveyed separately. Ninety-two percent of group centers and 82 percent of licensed family providers are vendors.

## Background on the Child Care Rate Setting Structure

### The Problem

The purpose of the county's annual child care rate survey is to determine the going rates for the private paying market. The rate survey is then used to set maximum subsidy payment rates for licensed vendors so that participants in the subsidy program will have access to most providers of day care services.<sup>1</sup> The maximum allowable rate is currently set, as recommended by the federal government, at a rate where 75 percent of licensed child care slots are available at this rate level or lower. Separate rates are set for four types of child care providers: state licensed group centers (which may serve 9 or more children), state licensed family centers (which may serve no more than 8 children at a time), county certified adults caring for children in their homes who are regularly certified, and county certified adults who are provisionally certified (that is, have less than 15 hours training or are caring only for children of relatives).

Maximum allowable weekly rates in Milwaukee County have escalated over the last five years, rising well above the rate of inflation (11.7 percent). For example, the allowable charge for care of preschool children in licensed group centers has risen 93 percent from \$105 a week in 1995 to \$200 a week in 2002. Allowable rate charges for licensed family homes have risen 67 percent from \$105 to \$175. Allowable rate charges for certified care have increased 84 percent from \$99.75 in 1995 to \$164 in 2002. For accredited providers, the rate increases are even higher.

#### Maximum Allowable Weekly Payments for Full-Time Care by Class of Provider

<b>For children</b>					<b>% Increase</b>
<b><u>under 2 years of age</u></b>	<b><u>1995</u></b>	<b><u>1999</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>1995-2002</u></b>
Group licensed	\$142	\$182.50	\$200	\$210	48%
Group accredited		\$200.75	\$220	\$231	63%
Family licensed	\$122	\$155	\$180	\$190	56%
Family accredited		\$170.50	\$198	\$209	71%
Certified (for 50 hours)	\$115.90	\$145.50	\$169	\$178	54%
Provisional (for 50 hours)		\$97	\$112.50	\$119	
<b>For children</b>					<b>% Increase</b>
<b><u>2-12 years of age</u></b>	<b><u>1995</u></b>	<b><u>1999</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>1995-2002</u></b>
Group licensed	\$105	\$153	\$172.50	\$182	73%
Group accredited		\$168.30	\$190	\$200.20	91%
Family licensed	\$105	\$140	\$165	\$175	67%
Family accredited		\$154	\$181.50	\$192.50	83%
Certified (for 50 hours)	\$99.75	\$131.50	\$154.50	\$164	84%
Provisional (for 50 hours)		\$87.50	\$103	\$109.50	

Note: Licensed providers receive weekly full-time payments if they care for a child for 30 hours or more. County certified providers are only paid by the hour. Licensed providers who are accredited may charge 10 percent above the maximum rate for licensed providers.

<sup>1</sup> Jeri Ann Rose, Ann Schmitter and Debi Schwid, 2001 **Final Report of the Child Care Advisory Committee: Recommendations on Child Care Rates and Policies for 2002** (Milwaukee: Planning Council for Health and Human Services, November 2001); Rose et al, 2000 **Final Report of the Child Care Advisory Committee: Recommendations on Child Care Rates and Policies for 2001** (Milwaukee: Planning Council for Health and Human Services, November 2000).

The table below shows the wide disparity of rates of licensed providers in Milwaukee County. In 2001, licensed group centers reported weekly fees as high as \$252 per child for infant and toddler care while other centers were charging \$140 a child. In licensed family centers, where overhead costs should be somewhat uniform, providers claimed weekly rates ranging from \$65 to \$350 for care of preschool and schoolage children.

#### 2001 Child Care Rates Reported by Providers with Paying Customers

<u>Weekly Rates</u>	<u>Licensed Group Centers:</u>		<u>Licensed Family Centers:</u>	
	<u>Children Under 2</u>	<u>Children 2-12</u>	<u>Children Under 2</u>	<u>Children 2-12</u>
Lowest	\$140	\$87.50	\$75	\$65
Highest	\$252	\$220.50	\$300	\$350
Most common rate	\$190	\$140	\$150	\$150

The hourly rates allowed for part-time care of schoolage children in Milwaukee County have reached \$6.67 per child for accredited licensed group care and \$6.42 per child for care with accredited licensed family providers. Certified family providers receive about half that rate, \$3.28 an hour, if regularly certified and about a third of that rate, \$2.19 an hour, if they are caring only for children of relatives or if they have not completed a 15 hour training program.

#### Maximum Allowable Hourly Rates for Part-Time Care of Schoolage Children

	<u>Licensed Accredited Group</u>	<u>Licensed Group</u>	<u>Licensed Accredited Family</u>	<u>Licensed Family</u>	<u>Regularly Certified*</u>	<u>Provisionally Certified*</u>
1995	\$2.93	\$2.93	\$2.93	\$2.93	\$2.66	na
<b>New Law</b>						
1997	\$5.00	\$4.34	\$4.00	\$4.00	\$2.25	\$1.50
1998	\$4.99	\$4.53	\$4.77	\$4.33	\$2.44	\$1.63
1999	\$5.61	\$5.10	\$5.13	\$4.67	\$2.63	\$1.75
2000	\$6.01	\$5.47	\$5.50	\$5.00	\$2.81	\$1.88
2001	\$6.33	\$5.75	\$6.05	\$5.50	\$3.09	\$2.06
2002	\$6.67	\$6.07	\$6.42	\$5.83	\$3.28	\$2.19

#### Child Care Rates Highest in Poorest Neighborhoods

The gap between what child care vendors charge compared to what the private unsubsidized market will bear may have resulted in a decline in affordable child care in the central city for working women required to pay co-payments or to purchase child care on their own. Rates were compared for neighborhoods in the Community Development Block Grant areas to other parts of the county.

- When analyzed by neighborhood, survey respondents in the poorest neighborhoods report the highest market rates, in sharp contrast to respondents from the non-CDBG areas of the southside, who report much lower rates. Central city areas (near northside and near southside) are much more likely to have licensed group providers billing at or above market rates. A majority (58 percent) of slots with licensed group providers in

the CDBG were charged at or above the maximum rate for children ages 2-12. By contrast, in the working class southside outside the CDBG, only 12 percent of subsidized slots were charging at or above the maximum rate. On the southside outside the CDBG, 37 percent of the slots were with providers charging below \$150 per week per child; in the central city CDBG areas, only 20 percent of slots were with providers charging below \$150 per week.

- Because the subsidy program is heavily concentrated in these poorest neighborhoods with the highest rates and because non-private providers are allowed to charge much higher rates, costs to subsidy program are considerable. As of May 20, 2001, 55 percent of subsidized 2-12 year olds in licensed group centers in the central city were charged at the maximum rates, compared to only 25 percent of the children in care in non-central city areas of the county. Only 11 percent of central city subsidy slots were charged at below \$150, compared to 21 percent of non-central city slots.
- For parents with 2 to 12 year olds needing day care, the chances of finding reasonably priced care in the central city for less than \$150 a week were also limited with licensed family providers. While 49 percent of the licensed family slots for children ages 2-12 in non-CDBG areas of the southside were priced below \$140 per week, only 8 percent of the licensed family slots for children aged 2-12 in the central city were priced below \$140. At the same time, 38 percent of central city slots (compared to 14 percent of the southside slots) were charged at or above the maximum allowable rate.

### **Rate Increases Higher than in the “Balance of the State”**

When child care rates in Milwaukee County are compared to rates in other areas of the state, increases in the county are higher than in rural areas and other urban counties. This is most striking for the 2-12 year old population where rates were fairly comparable throughout the state in 1995: \$105 maximum allowable weekly rate in Milwaukee County, \$96.50 median allowable weekly rate in other urban counties, and \$83 median allowable weekly rate in non-urban counties. By 2002, Milwaukee County rates had increased at a much higher percent (73 percent) than the other Wisconsin urban counties (56 percent) or rural counties (39 percent).<sup>2</sup>

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<sup>2</sup> Only Dane County has higher allowable rates for some categories of care.

### Maximum Payment Rates for Full-Time Licensed Care: State of Wisconsin

Maximum Payment Rates for Licensed Centers*	Milwaukee County	Other Urban Counties (median)	Non-Urban Counties (median)
Group centers for children under 2 yr.			
1995	\$142	\$126	\$90
2002	\$210	\$173	\$130
% Increase	+48%	+37%	+44%
Family centers for children under 2 yr.			
1995	\$122	\$101.50	\$90
2002	\$190	\$147.50	\$125
% Increase	+56%	+45%	+39%
Group centers for children 2-12 yr.			
1995 (ages 2-5)	\$105	\$96.50	\$83
2002 (ages 2-12)	\$182	\$151	\$115
% Increase	+73%	+56%	+39%
Family centers for children 2-12 yr.			
1995 (ages 2-5)	\$105	\$90	\$80
2002 (ages 2-12)	\$175	\$136	\$115
% Increase	+67%	+51%	+44%

\*Maximum rates and percent increases do not include the 10 percent bonus payment for accredited centers.

### Market Survey Factors Contributing to Rate Increases

Over time the county's market rate survey has been closely associated with the maximum subsidy rate setting process that determines the highest payments respondents may receive from the county child care subsidy program.<sup>3</sup> Under these circumstances, there is some question as to whether the market survey rate setting process influences survey response. There are important factors that point in this direction.

- Those group and family providers who claim to have no paying clients are allowed to bill the county at rates well above the private market average without providing documentation for their rates. At the same time, centers with private paying customers and market driven prices are penalized for reporting their actual rates and paid less than many providers who claim no paying customers.

Providers are increasingly charging the county the maximum allowable rate by excluding themselves from the market survey by claiming high rates and thus no regular paying customers. In the Fall 2000 survey, 92 licensed group centers also in the county subsidy program with a capacity of 5,614 slots excluded themselves from the survey because they had no paying clients (that is, 3 or more families paying "regular" rates within the last six months), and most (58 percent of the slots) reported the rates at or above the maximum allowable rate. Similarly, 162 family providers with a capacity of

<sup>3</sup>Confusing the role of the county rate survey in determining market rates is the procedure of using the survey to collect "rate schedules" for day care providers with no regular paying clients. These schedules are not included in the survey's calculation of average market rates but are used to determine child care subsidies paid to the vendor.



1,296 slots excluded themselves from the survey as having no paying customers, and 41 percent of these providers proceeded to charge the county at the maximum allowable rates.

The degree to which providers charge high rates in order to exclude private paying customers and thus to receive higher government subsidies may also exclude low-income parents from the potentially lower private market rate providers and exclude potentially lower-charging providers from the survey thereby driving up maximum rates.

- Group vendors with no private paying families are now two times more likely to charge above the maximum allowable rate. For children ages 2-12, 60 percent of licensed group vendors with no private paying families reported rates at or above the maximum allowable. Also, 47 percent of family providers without paying customers charge greater than the maximum allowable rate for 2-12 year old children.
- There may be some definitional problems with how private unsubsidized rates should be reported and which rates should be included in the survey. From the survey instructions, it appears that vendors with no current clients paying their unsubsidized weekly rates are allowed to respond and identify rates that are not substantiated by a currently enrolled population. This could explain the very high market rates in the poorest neighborhoods.
- Rates for hourly part-time care are no longer surveyed. State regulations specify only two types of rates (for children under age 2 and for all other children aged 2 through 12). In fact, a third rate is derived rather than surveyed for after school and part-time care by dividing the highest rate the center charges for 50 hours of care a week by a divisor of 30. If a center charges \$200 a week for 50 hours of care, this number is divided by 30 and the result is an hourly charge of \$6.66 for part-time care.
- Private market rates are usually lower for older children who require less supervision, but child care providers with different rates for preschool and schoolage children are allowed to charge the government subsidy program their highest rate for all children ages 2-12.<sup>4</sup>
- Child care providers with sliding fee scales are instructed to report their highest rates rather than their usual fees.
- Rates for certified providers are not based on market surveys. Instead hourly rates for regularly certified providers are arbitrarily set at 56.25 percent of the maximum allowable

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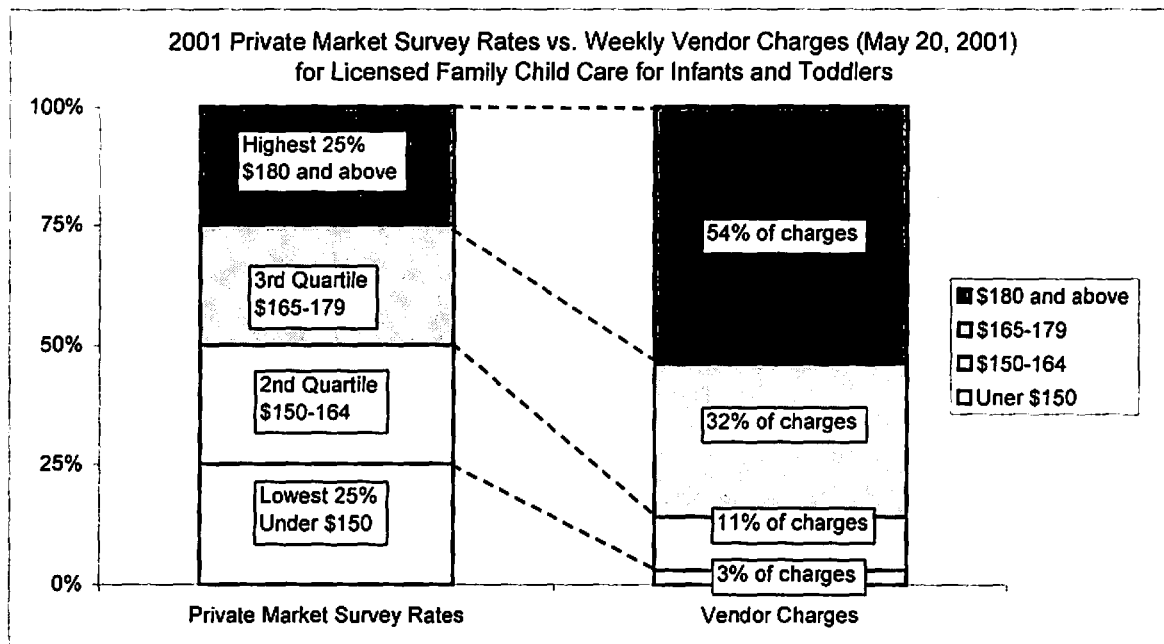
<sup>4</sup> In licensed group day care centers, state law requires a worker to child ratio of 1:6 for children ages 2 to 2-1/2; 1:8 for children ages 2-1/2 to 3; 1:10 for children ages 3-4; 1:13 for children ages 4-5; 1:17 for children ages 5-6; and 1:18 for children aged 6 and above.

hourly rate for licensed family providers. Rates for provisionally certified providers are arbitrarily set at 37.5 percent of the licensed family hourly rates.<sup>5</sup>

### Rate Structure Impact on Subsidy Costs

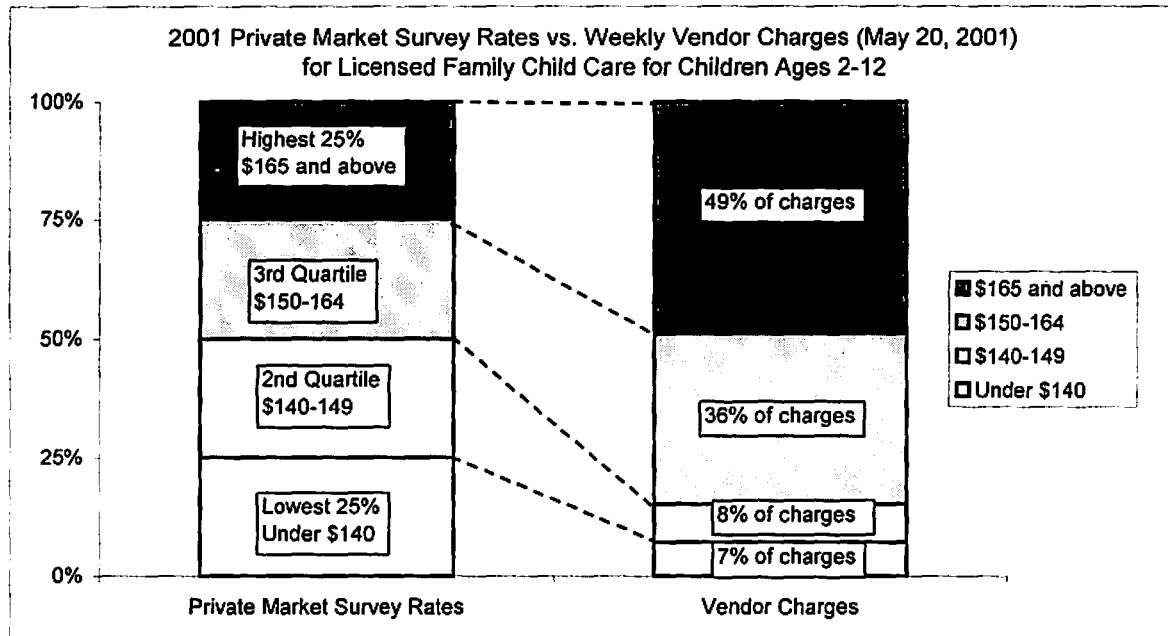
Child care rates were reviewed for Milwaukee County licensed child care providers included in the 2001 rate survey and compared to the rates paid by the county for subsidized providers.

- Subsidy costs are higher because low-cost providers are much less likely to do business with Milwaukee County.
- In 2001, 25 percent of licensed family providers with at least one paying family reported fees of under \$150 a week to care for infants or toddlers, but only 3 percent of licensed family providers receiving public subsidies charged below \$150. At the same time, while 25 percent of licensed family providers with a paying family charged \$180 or above for care of children under age 2, over half (54 percent) of subsidized providers charged the government rates of \$180 or above for infant and toddler care.

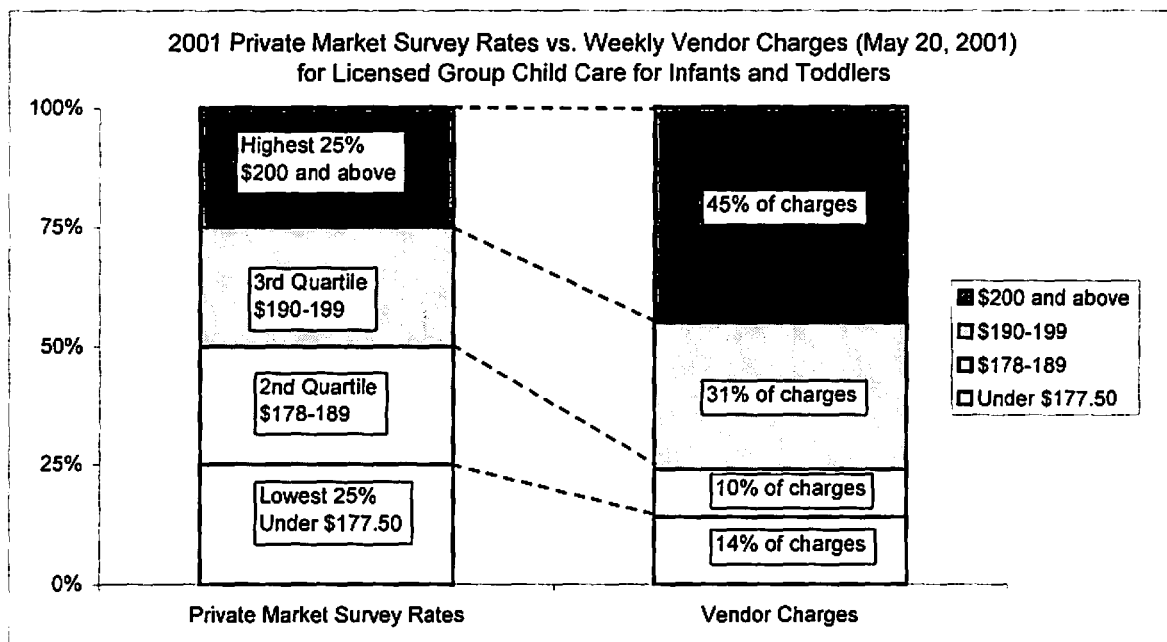


<sup>5</sup> Milwaukee is the only Wisconsin county paying regularly certified family providers less than 75 percent of the hourly rate allowed for licensed family providers, and paying provisionally certified providers less than 50 percent of the hourly rate allowed for licensed family providers.

- Similarly, half of licensed family providers in the market survey had charges of under \$150 a week for care of preschool and schoolage children. Yet only 15 percent of subsidized providers reported rates below \$150 a week.



- Licensed group centers in the subsidy program also charged higher rates than shown in the market survey. One-fourth of licensed group providers serving infants and toddlers reported fees of \$200 and above, while 45 percent of licensed group providers in the government subsidy program were in this highest rate category.



- Half of licensed group providers in the market survey reported regular fees of under \$158 a week for preschool and school age children (ages 2-12), but less than a fourth of subsidized providers charged these lower rates.

