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# Impact of Welfare Reform on Child Care Subsidies in Milwaukee County: 1996-1999

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## **Impact of Welfare Reform on Child Care Subsidies in Milwaukee County: 1996-1999**

by John Pawasarat and Lois M. Quinn, Employment and Training Institute, University of Wisconsin-Milwaukee, 1999

As part of its "W-2" ("Wisconsin Works") reforms of the state welfare system, the State of Wisconsin made a substantial commitment to provide day care support for low-income employed families, using federal TANF (Temporary Assistance to Needy Families) and child care block grant funds. This report on day care usage was developed to assist Milwaukee County and the State of Wisconsin in their long-term efforts to build an effective day care payment delivery system for employed families. The analysis examines the utilization of child care subsidies for "W-2" and low-income families in Milwaukee County from January 1996 through February 1999, analyzes payments to care providers, and reviews public assistance records ("W-2," food stamps and medical assistance) to assess use and type of child care subsidized in the county. Totals include payments for "W-2" and low-income employed families and do not include payments for children in foster care and kinship care cases. The study also explores the experience of adults offering provisional, certified and licensed child care to gauge income received for this work in 1998, compared to prior years.

### **Findings**

#### **Expenditures Increase As Do Average Costs Per Family**

- The number of Milwaukee County families receiving low-income day care support more than doubled over the last three years, from 3,011 in January 1996 to 6,876 in January 1999. Monthly day care subsidy payments increased from \$1.5 million in January 1996 to \$5.2 million in January 1999. (These totals do not include payments for foster care and kinship care cases.)
- Most of the increases occurred as the "W-2" program took effect and families with young children and more children required care. For these families the cost of child care often exceeded their "W-2" payments. For over half (56 percent) of these families the day care provider received a subsidy payment which was higher than the family's combined earnings and "W-2" payment. Another 2,453 employed families received food stamp benefits but not "W-2" payments in January 1999, and about a third (31 percent) of these families showed lower total wages than the day care payments made to their child care provider.
- The average monthly day care subsidy was \$759 per family in January 1999, up from \$510 in January 1996. This amount is equal to the total earnings of a minimum wage (\$5.15 an hour) worker employed 36 hours a week. Almost 700 mostly "W-2" families received subsidized child care payments at an annualized rate of \$20,000 or more.
- Almost a fourth (23 percent) of day care payments were for children under age two. Over half (56 percent) of children under age two were in care for 50 or more hours a week and three-fourths (79 percent) were in care for 40 hours or more a week in January 1999.

#### **Working Poor Not on Welfare Make Up Small Portion of Population Served**

- Public child care assistance was intended not only for families in the "W-2" Wisconsin welfare program but also for other financially eligible working adults with children. However, almost all (93 percent) of the 11,768 families who received day care support at some time in 1998 were in the welfare system, while only 7 percent did not appear to have been on public assistance.
- By contrast, 53,513 low-income employed Milwaukee County families with children claimed the state and federal earned income tax credit (EITC) in 1997. An estimated 90 percent of eligible low-income employed Milwaukee County families claim the credit.

## **Licensed Capacity Increases in Central City**

- Licensed capacity has increased for both family and group day care providers in Milwaukee County over the last three years. The number of licensed family providers increased from 196 in March 1996 to 337 by April 1999 (1,565 slots to 2,693 slots). The number of licensed group provider sites increased from 229 to 303 (15,721 slots to 21,519 slots) over the three year period. Increases took place primarily in the central city neighborhoods of Milwaukee.
- A total of 1,982 day care providers were paid \$65,655,740 in 1998 (including day care payments for "W-2," low-income, foster care and kinship care cases). These included 1,164 certified providers who were paid \$9.5 million, 350 provisional providers paid \$1.7 million, and 468 licensed family and group center providers paid \$54.5 million.
- Day care support is focused on moving children into licensed or certified day care settings and does not encourage in-home care. Yet, only 24 licensed child care providers (with a total capacity of 458 slots) are open after 7:00 p.m. in central city neighborhoods.

## **Family Day Care As an Employment Option**

- The percent of certified family day care providers earning over \$10,000 per year in day care subsidy payments rose from 22 percent in 1996 to 39 percent in 1998. The percent of licensed family providers earning over \$10,000 in subsidies rose from 2 percent in 1996 to 11 percent in 1998.
- Few provisional day care providers (relatives and adults who have not completed the required 15 hours of training for certified status) moved to the licensed class of family or group providers. Of 1,550 provisional providers who received county day care payments in 1996-1999, only 2 percent had attained licensed provider status by 1999. Those few who did become licensed providers, however, showed county income payments averaging \$25,864 in 1998.

## **High Turnover, Transportation and Underutilization Concerns**

- The high turnover and high volume patterns of child care, observed in 1996 and 1997, are persisting. Of the 909 children entering the day care payment system in the second half of January 1998, only 45 percent were still receiving day care support at the end of the year and only 17 percent received day care support for all of 1998. Families changing day care providers account for a growing portion of the county activity administering day care payments.
- Access to adequate transportation remains a problem for many families receiving day care support. Only one in five "W-2" families receiving day care subsidies in 1998 had a driver's license, while over half (55 percent) of families receiving day care support but no "W-2" payments had a license.
- The state's day care co-payment schedule adversely effects use of part-time afterschool care in cases where the family's required co-payment exceeds or is almost equal to the actual cost of care. For example, employed three-person families with one child needing 15 hours a week of afterschool care are required to make higher co-payments than the cost of provisional care (\$26.25) once their income reaches 135 percent of poverty. (To encourage use of Milwaukee Public Schools before and after school programs, an exception was made which allowed parents to pay only half of the usual co-payment, to bring the co-payment more in line with actual program costs.)
- In many cases the child care subsidy (even without the family co-payment) exceeds the revenues received from non-subsidized clients. As a result, day care centers may not expect lower-earning families to make any co-payment, while families with higher co-payment requirements and part-time care are more likely to be required to make co-payments.

## Expansion of Day Care Support in 1998 and 1999

Over the last three years Milwaukee County has substantially increased the number of children receiving day care support. The number of children receiving day care help more than doubled, from 4,371 in January 1997 to 11,496 in January 1999. The number of families receiving day care support doubled over the last three years: from 3,011 in January 1996, to 3,776 in January 1997, 5,224 in January 1998, and 6,876 in January 1999. These totals include payments made to "W-2" and low-income employed families and exclude payments for children in foster care and kinship care.

In 1998, 11,768 low-income families received \$59,286,647 in day care support. Yearly child care payments averaged \$5,038 per family, and ranged from \$2 to \$52,526. Monthly payments for day care for low-income families increased from \$1.5 million in January 1996 to \$5.2 million in January 1999. Average monthly payments to families rose as well from \$510 in January 1996 to \$759 in January 1999.

Day Care Support for Low-Income Families in Milwaukee County: Annual Payments			
	1996	1997	1998
Total Families Served	7,914	9,416	11,768
Total Child Care Payments	\$26,706,666	\$37,021,628	\$59,288,885
Average Payment Per Family	\$3,396	\$3,932	\$5,038

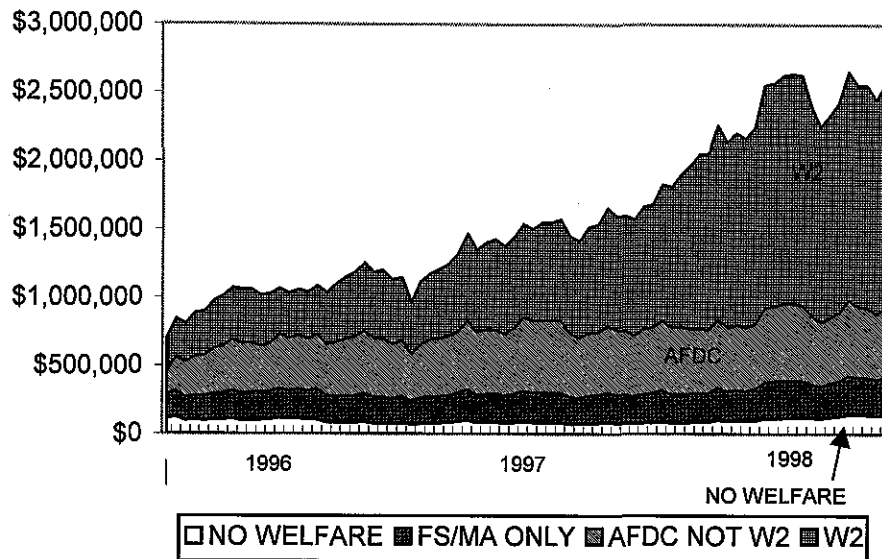
Day Care Support for Low-Income Families in Milwaukee County: Monthly Payments				
	January 96	January 97	January 98	January 99
Families Served	3,011	3,776	5,224	6,876
Child Care Payments	\$1.5 million	\$2.1 million	\$3.5 million	\$5.2 million
Average Payment Per Family	\$510	\$549	\$670	\$759

## Family Use of Subsidized Child Care by Welfare Status

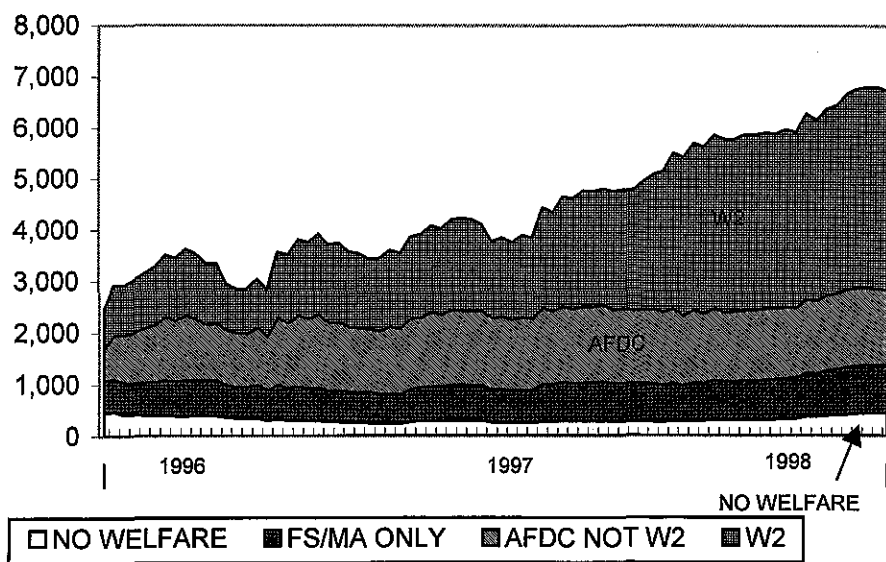
During 1998 11,768 families used child care subsidies for eligible low-income and "W-2" populations (not including children in kinship care or foster care). Almost all of the families served (93 percent) were in the welfare system, while only 7 percent did not appear to have been on public assistance.

Nearly two-thirds (63 percent) of families were in "W-2" in 1998. These 7,397 "W-2" families accounted for \$39 million of the 1998 child care payments and made up an increasing share of families who were new users of subsidized child care in 1998. The next largest group consisted of former AFDC recipients not receiving "W-2" payments who made up 23 percent of families receiving the child care subsidies. Most of these former AFDC families (95 percent) remained on food stamps or medical assistance. Families on food stamps or medical assistance but not on "W-2" or AFDC made up 13 percent of the population receiving day care payments.

### BIWEEKLY CHILDCARE EXPENDITURES BY TYPE OF PUBLIC ASSISTANCE



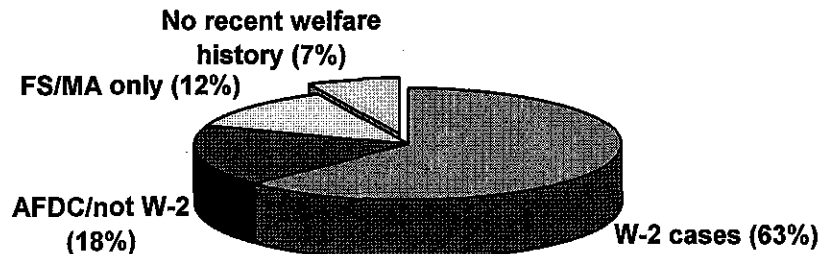
### FAMILIES WITH A CHILDCARE SUBSIDY BY TYPE OF PUBLIC ASSISTANCE



### 1998 Day Care Payments by Family Welfare Status

1998 Payments	W-2 Cases	AFDC, not in W-2	Only Food Stamps or Medical Asst.	No Recent Welfare History	TOTAL	% of Total
\$25,000 or more	49	7	2	3	61	0.5
\$15,000 - 24,999	334	86	30	10	460	3.9
\$10,000 - 14,999	763	240	107	44	1,154	9.8
\$5,000 - 9,999	1,773	525	266	123	2,687	22.8
\$2,500 - 4,999	1,876	528	401	212	3,017	25.6
\$1 - 2,499	2,602	702	647	438	4,389	37.4
<b>TOTAL</b>	<b>7,397</b>	<b>2,088</b>	<b>1,453</b>	<b>830</b>	<b>11,768</b>	<b>100.0</b>

### Families Receiving Day Care Subsidies



### Costs Increase with Size of Family and Younger Children

Average payment costs per family for child care have increased substantially as families with young children (needing more expensive child care) are required to work in "W-2" subsidized positions. The larger number of children per family and the increasing number of hours of care per week per child have also raised costs for care per family. Costs per family increased when licensed providers were guaranteed full payment for full-time care (25 hours or more per week) based on enrollments rather than attendance. Average monthly family day care subsidies increased from \$510 in January 1996 to \$759 in January 1999.

These increases are primarily a result of the costs of supporting day care for "W-2" cases and policies which guarantee full payment to day care centers based on enrollments rather than attendance.

Payments for families with over \$10,000 in child care subsidies (14.5 percent of cases subsidized in 1998) totaled \$24 million in 1998 and accounted for 40 percent of all subsidies paid. Most of these high cost families are in "W-2" or were formerly on AFDC. Evidence of high turnover can also be seen in the large numbers of families with less than \$2,500 in annual payments.

1998 Payments to Milwaukee County Families		
1998 Payments	Families	Percent
\$1 - \$999	1,854	15.7%
\$1,000 - 1,999	1,835	15.6
\$2,000 - 2,999	1,409	12.0
\$3,000 - 3,999	1,250	10.6
\$4,000 - 4,999	1,073	9.1
\$5,000 - 9,999	2,680	22.8
\$10,000 - 14,999	1,153	9.8
\$15,000 - 19,999	348	3.0
\$20,000 - 24,999	107	0.9
\$25,000 - 29,999	39	0.3
\$30,000 and above	20	0.2
<b>TOTAL</b>	<b>11,768</b>	<b>100.0%</b>

The average day care subsidy was \$759 per family for the month of January 1999. This amount is equal to the total earnings of a minimum wage (\$5.15 an hour) worker employed thirty-six hours a week. In many cases the average payments for child care for families in the "W-2" program exceeded the "W-2" cash payment made to the family. In January 1999, 1,414 families received "W-2" income support payments and day care support for their children. These families received "W-2" payments averaging \$528 while their child care subsidies averaged \$818.

Families remaining in subsidized "W-2" community service or transition programs show high day care costs particularly for larger families. By the end of January 1999 almost 700 mostly "W-2" families received day care subsidies which at an annual rate would exceed \$20,000. For over half (56 percent) of the "W-2" families receiving day care support, their day care providers received a subsidy payment which was higher than the family's combined earnings and "W-2" payment. Another 2,453 employed families received food stamp benefits but no "W-2" payments in January 1999. About a third (31 percent) of these families showed lower total wages than the subsidy payments made to their day care provider.

Analysis of families using day care subsidies in the last two weeks of January 1999 showed almost a fourth (23 percent) of payments for children under age two. Over half (56 percent) of children under age two were in care for 50 or more hours a week and three-fourths (79 percent) were in care for 40 hours or more a week. The average weekly subsidy payment for these young children was \$136. Most schoolage children were in day care less than 25 hours a week and their care payments averaged \$85.

Children Receiving Day Care Subsidies: Jan. 1999				
Age of Child	Number	%	Average Weekly	
			Hours	Payment
Under 12 mo.	1,253	10.1%	43	\$137
1 year old	1,544	12.5	43	\$135
2 year old	1,650	13.3	44	\$114
3 year old	1,544	12.5	43	\$114
4 year old	1,490	12.0	39	\$110
5 year old	1,155	9.3	30	\$ 99
6 year old	996	8.1	25	\$ 90
7 year old	848	6.9	24	\$ 84
8 year old	684	5.5	24	\$ 86
9 year old	524	4.2	25	\$ 86
10 year old	364	2.9	25	\$ 83
11 year old	192	1.6	25	\$ 76
12 year old	118	1.0	26	\$ 75
<b>TOTAL</b>	<b>12,369</b>	<b>100.0</b>	<b>36</b>	<b>\$109</b>

## Child Care as a Source of Employment

Payments made to all Milwaukee County subsidized child care providers were examined together with state licensed providers to examine the employment experience of provisional and certified providers and any movement toward licensed care status for the period January 1, 1996 through March 1, 1999. Payments included subsidy totals for day care for "W-2" cases, low-income employed families, kinship care and foster care cases. These totals do not include family co-payments, which when made are paid directly to the provider and are not reported to the county.

Payments to Milwaukee County Day Care Providers: 1996-1998				
	Family Provisional	Family Certified	Family Licensed	Centers Licensed
1996	\$2.2 million	\$5.5 million	\$1.0 million	\$22.4 million
1997	\$1.6 million	\$7.7 million	\$1.6 million	\$32.0 million
1998	\$1.7 million	\$9.5 million	\$5.1 million	\$49.3 million

### Provisional Providers

The provisional care status was created for providers who are relatives or have not completed the required 15 hours of training for certified status. Changes in child care policies during 1996 resulted in high but short term use of provisional care. This resulted in very low payments and high turnover. The number of provisional providers decreased from 1,136 in 1996 (as families transitioned from AFDC grant reimbursements for day care to direct payments to providers) to 350 providers during 1998 and only 193 provisional providers shown in the first two months of 1999. Average annual payments to provisional providers rose from \$1,908 in 1996 to \$5,403 in 1998. The percent of provisional providers earning over \$5,000 per year in subsidy payments rose from 8 percent in 1996 to 38 percent in 1998, and the percent earning over \$10,000 a year rose from 2 percent in 1996 to 11 percent in 1998.

Few provisional providers moved to the licensed class of family or group providers. Of the 1,550 provisional providers who received day care payments in the 1996-1999 period, only 36 (or 2 percent) had attained licensed provider status by 1999. Those few who did become licensed providers, however, showed county day care payments averaging \$25,864 in 1998.

Provisional Day Care Providers			
	Number	Avg. Annual Payment	% Paid Over \$10,000
1996	1,136	\$1,908	2%
1997	634	\$2,624	4%
1998	350	\$5,403	11%

### Certified Providers

The population of certified providers in contrast increased in number and in aggregate amount paid with providers increasing from 841 in 1996 to 1,164 in 1998, and payments rising from \$5.7 million in 1996 to \$11.67 million in 1998. Average annual payments increased as well from \$6,777 in 1996 to \$10,078 in 1998. Providers earning \$10,000 or more per year rose from 22 percent in 1996 to 39 percent in 1998.

Certified Day Care Providers			
	Number	Avg. Annual Payment	% Paid Over \$10,000
1996	841	\$6,777	22%
1997	973	\$8,031	30%
1998	1,164	\$10,078	39%



The certified class of providers was much more likely to advance to the more lucrative licensed group of family provider status. Still, by March 1999, only 144 (10 percent) of the 1,164 providers certified in 1998 had a regular or probationary license. (Another 41 certified providers unsuccessfully attempted to become licensed.) Of the 100 certified providers who had moved to licensed care providers in 1998, their combined county payments that year averaged \$37,208.

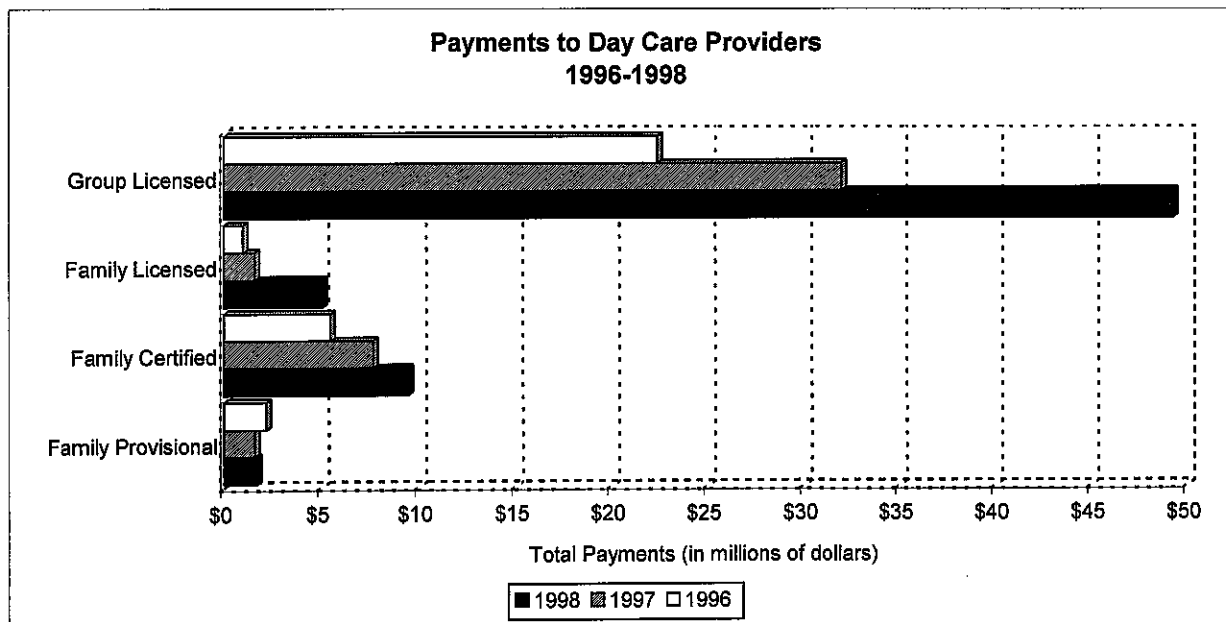
### Licensed Family Care Providers

Licensed family care providers are allowed to care for a maximum of 8 children at a considerably higher rate of payment compared to certified providers. During 1996, 83 licensed family providers were paid \$1 million. In 1997, 112 licensed family providers were paid \$1.6 million, and in 1998, 196 providers were paid \$5.1 million. The average annual subsidy payments for these providers doubled from \$12,613 in 1996 to \$26,260 in 1998.

Licensed Family Day Care Providers			
	Number	Avg. Annual Payment	% Paid Over \$10,000
1996	83	\$12,613	48%
1997	112	\$14,027	45%
1998	196	\$26,260	67%

### Most County Payments Go to Licensed Group Providers

A total of 1,982 day care providers were paid \$65,655,740 in 1998. These included 1,164 certified providers who were paid \$9.5 million, 350 provisional providers paid \$1.7 million, and 468 licensed family and group center providers paid \$54.5 million. Most county payments were made to licensed group day care centers and were concentrated in 11 provider agencies with annual payments of over \$1 million each and total payments of \$16 million, and 18 agencies with annual payments between \$500,000-\$1,000,000 and total payments of \$11.6 million.

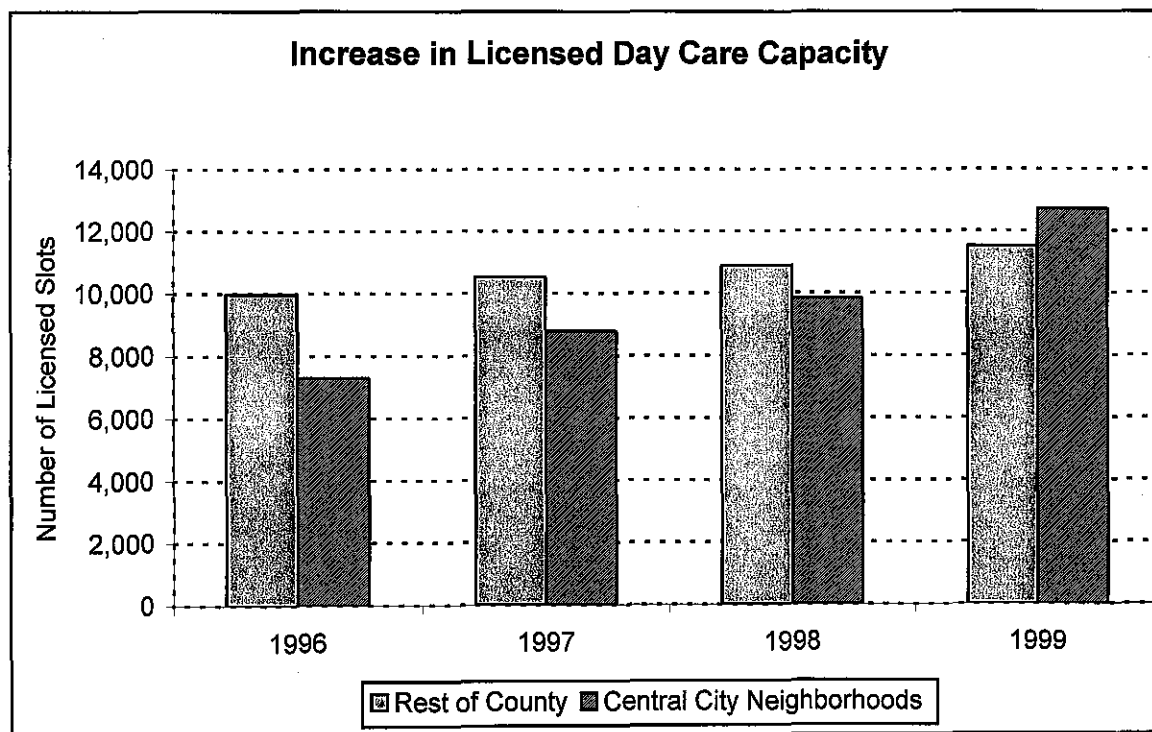


## Licensed Child Care Capacity Increases in the Central City

Licensed capacity has increased for both family and group providers in the last three years. The number of licensed family day care providers in Milwaukee County increased from 196 in March 1996 to 337 by April 1999. The capacity of licensed family providers increased from 1,565 to 2,693 slots. Licensed group provider sites rose from 229 in March 1996 to 303 in April 1999 and capacity rose from 15,721 slots to 21,519 slots.

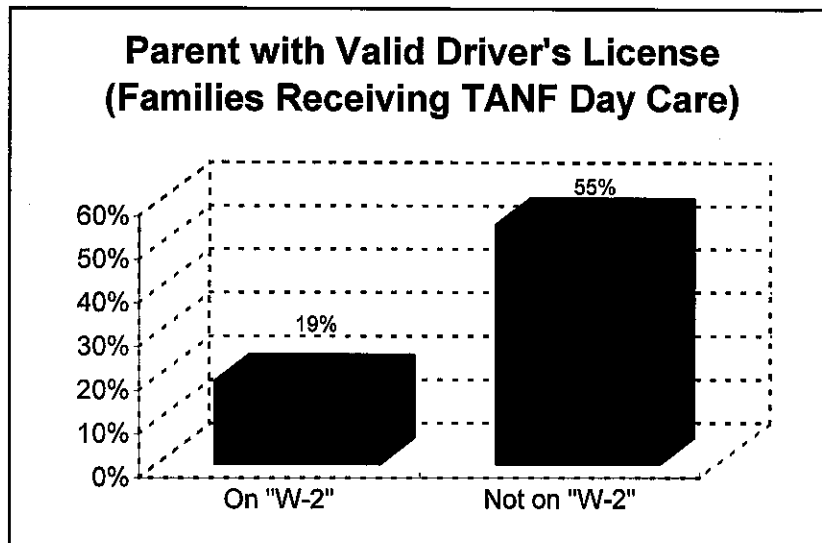
Increases took place primarily in the central city where ten zipcode areas accounted for 51 percent of all group capacity in Milwaukee County, up from 41 percent of group capacity in March 1996. Similarly, the ten zipcode areas accounted for 66 percent of family day care capacity in April 1999, compared to 50 percent of the capacity in 1996. Three-fourths (76 percent) of the increase in group center capacity in Milwaukee County and 90 percent of the increase in family capacity took place in the central city.

Availability of evening child care remains a problem with only 24 providers open after 7:00 pm. In April 1999 licensed centers with evening day care had a capacity of 458 slots in central city neighborhoods.



## Transportation and Child Care

Access to adequate transportation remains a problem for many families receiving subsidized care. By the end of 1998, only one out of five of the families receiving a "W-2" payment and day care subsidies had a driver's license. For families receiving subsidized day care but not in "W-2," 55 percent had a driver's license.



## Subsidized Care Is Concentrated in Central City

As of the week of February 6, 1999, two-thirds (69 percent) of all child care subsidies were made to providers in eight northside central city zipcodes. Day care providers in these eight central city zipcodes enrolled 65 percent of the children in licensed group care, 84 percent of the children in licensed family care, and 75 percent of children in provisional or certified care.

During the week of February 6, 1999, 11,233 Milwaukee County children received subsidized child care totalling \$1.3 million. Most of the children (81 percent) were in licensed care and were enrolled in day care in the eight northside zipcode areas. The table at right shows the zipcode areas where providers received the highest day care payments in 1998.

### Zipcode Areas With Highest Day Care Payments

Zipcode	1998 Payments
53209	\$6,908,228
53206	\$6,107,684
53218	\$5,319,333
53208	\$4,968,439
53216	\$4,843,058
53212	\$4,823,104
53210	\$4,582,244
53204	\$2,988,129
53205	\$2,722,019
53215	\$2,694,055
53225	\$2,608,891
53224	\$1,931,949
53223	\$1,578,042
53233	\$1,291,869

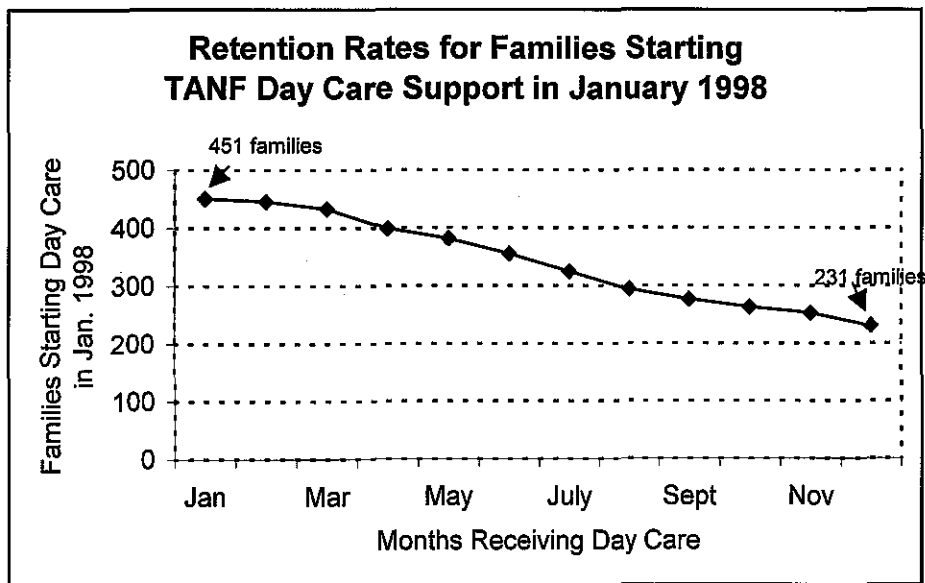
## Turnover in Child Day Care

The high turnover and high volume patterns of child care, observed in 1996 and 1997, are persisting. Child care patterns mirror the high turnover employment experience of many new entrants to the labor force, and flood the Milwaukee County payment and regulatory system with thousands of short-term child care placements.

A total of 23,240 children received day care support at some time during 1998. Yet only about half of these children were enrolled in any given week of the year. Most children entering the day care system did not receive continuous care during the year and were not receiving payments at the end of the year. For example, of the 909 children entering the day care payment system in the second half of January 1998, only 408 (45 percent) were still receiving payments at the end of the year and only 158 (17 percent) received day care support for all of 1998.

Many children switched day care providers, complicating the work required to process day care subsidies. For example, 27 percent of the children first receiving day care support in the second half of January 1998 showed day care subsidies at the end of December with the same provider. Only 14 percent of the children remained in supported day care with the same provider for all of 1998.

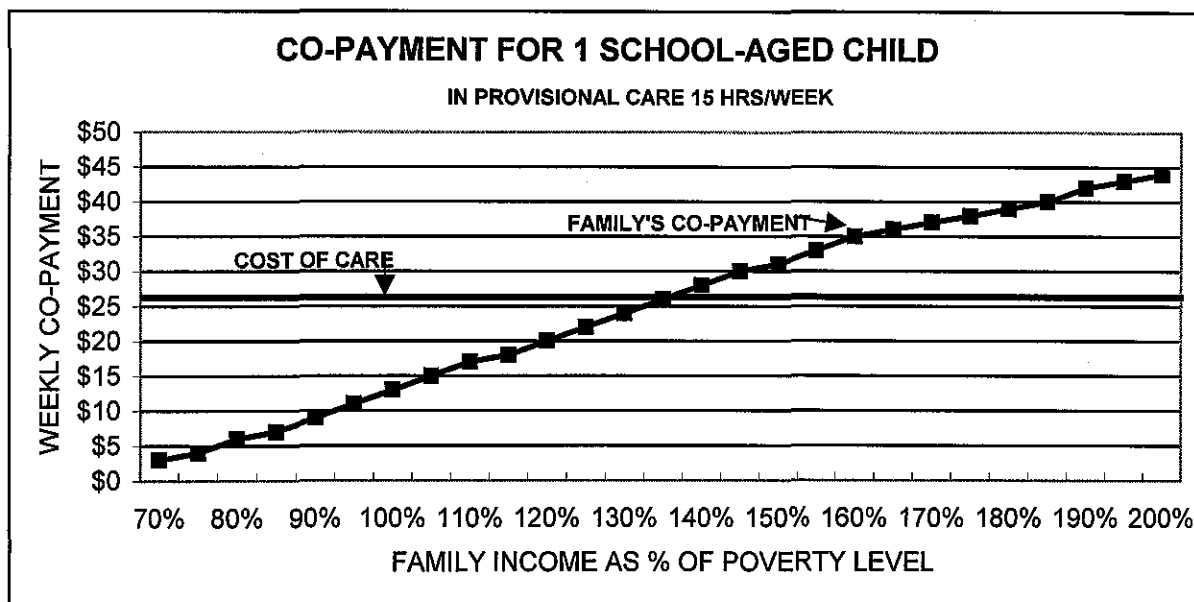
The number of new children entering the day care payment system is declining. The number of new children receiving day care payments was 909 in second half of January 1998 but had dropped to 266 by the second half of December 1998. Meanwhile, families **changing** day care providers accounted for much of the administrative activity shown in 1998. The number of new child/provider events went from 1,010 in the second half of January 1998 to 500 in the second half of December 1998, suggesting that processing turnover of vendors is accounting for an increasing amount of the administrative day care activity over time.



## Factors Relating to Underutilization of Day Care Subsidies for Part-Time Care

Family co-payments for day care are determined by the family's income as a percent of poverty rather than actual cost of day care provided. This co-payment schedule adversely effects use of part-time afterschool care in cases where the family's required co-payment exceeds or is almost equal to the actual cost of care. The graph below shows the co-payment schedule for a 3-person family with one child needing 15 hours a week of afterschool care. For families with earnings at 135 percent of poverty or above, the family's co-payment exceeds the total weekly cost of provisional care (\$26.25). Subsidies (or reimbursements) for less expensive part-time informal care or babysitting are not permitted. Caregivers must be 18 years or older and certified or licensed, even though few licensed providers offer care during the evenings or on a part-time basis.

In many cases, the day care subsidies (even without the family co-payment) exceed the usual fees the centers charge families in non-subsidized care. In addition, centers receive subsidies at a full-time rate for any care above 24 hours per week. As a result, most families on the low-end of the co-payment schedule may not actually be required by their day care center to make any co-payment, while families with higher co-payment requirements and with part-time care are more likely to be required to make co-payments. (The state made an exception for children enrolled in before and afterschool programs operated by Milwaukee Public Schools so that parents would be required to make only 50 percent of their expected co-payment. This exception was intended to lessen the impact of the state formula which discourages state support for less expensive part-time care by establishing parent co-payment schedules which reach or exceed the actual cost of care.)



Funding support for this study was provided in part by the Helen Bader Foundation. For further information, contact the Employment and Training Institute, University Outreach, University of Wisconsin-Milwaukee, 161 W. Wisconsin Avenue, Suite 6000, Milwaukee, WI 53203. PHONE (414) 227-3380. FAX (414) 227-3233. WEBSITE [www.uwm.edu/Dept/ETI](http://www.uwm.edu/Dept/ETI)