For more information:
Rob Henken
President
Public Policy Forum
414-276-8240 or 414-708-4392 (cell)
rhenken@publicpolicyforum.org

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New focus on child care quality challenged by policies of the past

Ratings system initiative contrasts with original emphasis on low cost and quantity

MILWAUKEE – *Wednesday, December 8, 2010* –The original goals of welfare reform produced state child care policies that had detrimental impacts on child care quality and that may be difficult to reverse under the state's new quality ratings system initiative, according to the Public Policy Forum's latest report from its initiative on early childhood care and education.

"The key child care policy objective initiated in conjunction with W-2 was to expand the child care market in such a way as to create jobs and allow low-income parents to work," says Anneliese Dickman, Forum research director. "Indeed, the success of W-2 was predicated on creating a system that would provide subsidized parents with some leverage in the private child care marketplace, but that would not be too expensive to be sustainable. Our historical research finds that policymakers at the time decided to risk negative impacts on the quality of care, particularly in Milwaukee County, and that, in the end, they lost the bet and ended up with a very expensive system of mostly lower-quality care."

The report finds that as the existing Wisconsin Shares system became operational, certain policy decisions produced results – many of which were unintended – that ended up boosting child care costs for the state while reducing child care quality. Those include:

1. Creating a ***new, less regulated category of care provider,*** which was intended to allow parents broader choices in providers, quickly create jobs, and keep child care costs low for parents and the state.
2. Sharing costs with parents by ***basing co-payments on the cost of care,*** as opposed to the parents' income, which would have allowed parents to opt for more costly care only if they wished to pay more out of pocket but which, ultimately, could not be implemented.
3. Creating a ***more restrictive definition of "low-income,"*** in order to serve the working poor in general, and not just those obtaining or seeking jobs as part of the W-2 program.
4. ***Tying subsidy rates to prices in the private market,*** which was intended to provide low-income parents with access to the entire market while also relying on competition to keep the state's costs in check.

"Our research shows that each of these four policies helped the state achieve its primary goal of providing a sufficient child care supply that would allow low-income parents to move from welfare to work, but at a high cost to the state and at the expense of quality within the child care market," says Dickman. "So now the challenge becomes: As policymakers look to reform the system under the new YoungStar initiative, can they successfully change the emphasis to quality within a system originally built to emphasize low cost and quantity?"

The report presents several policy challenges with which YoungStar's designers and implementers must grapple:

- Stepping up collections of co-payments from parents. Under YoungStar, child care providers will be contractually obligated to collect parent co-payments, which they have not been required to do previously. An enforced co-payment requirement might cause providers who serve mostly low-income families to leave the program if they are not able to collect the co-payments, even if they are providing quality care.

- Keeping income eligibility limits for working families at current levels. The pool of families eligible for Wisconsin Shares subsidies is growing because Wisconsin family incomes are not, which swells overall program costs. As more money is tied up in providing access to care, less will be available to improve the quality of care. Options for cutting costs would be to reset eligibility limits to exclude more families, or to appropriate a sum-certain amount and create a wait list for the subsidy. Both of those options, however, would retreat from the goal of serving all the state's low-income families.
- Tying subsidy rates to quality so as to incentivize quality improvements. Higher subsidy rates for higher quality might price some private pay families out of the market, as providers may raise their rates to match the higher level of subsidy. If that were to happen, such families may have to seek lower quality options than they are using today. In addition, because YoungStar has been designed to be revenue neutral (at least initially), most providers will continue to earn the same subsidy rate after the initial round of quality rankings as they do today. If providers are not certain their investments in quality will result in higher subsidies, they may not see YoungStar as an incentive to improve.

Several policy options are highlighted for consideration as YoungStar's implementation moves forward, including having the state collect parent co-payments directly, reducing the subsidy for lower-quality providers, and eliminating one category of provider—the minimally regulated provisionally certified provider.

"The success of YoungStar may well rest on the ability and willingness of program designers and implementers to monitor real-world impacts on families and the child care market in Milwaukee County and make changes on the fly in order to avoid a new set of unintended consequences," says Dickman.

Milwaukee-based Public Policy Forum, established in 1913 as a local government watchdog, is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of southeastern Wisconsin through objective research of public policy issues.

The full report can be downloaded from the Forum's Web site at www.publicpolicyforum.org.