WISCONSIN POLICY FORUM

FEWER WISCONSIN KIDS GETTING SUBSIDIZED CHILD CARE

The coronavirus and the state's policy responses have had sizable impacts on the state's child care subsidy program, first driving up enrollments in Wisconsin Shares and then causing them to fall to the lowest levels in at least five years. These developments affect families, providers, and the economy and should receive attention from lawmakers during the state's budget process and beyond.

When the coronavirus pandemic forced the closure of schools and many workplaces a year ago, large numbers of child care providers similarly shut down as children and parents left their normal routines and unemployment skyrocketed.

Yet, despite this abrupt shift, the number of children being nominally served by the state's Wisconsin Shares child care subsidy program actually rose by 15% in April 2020 and remained elevated through June. The expected downward shift occurred instead in July, when program enrollment fell by 27%, and it has remained at lower than usual levels despite modest increases in recent months.

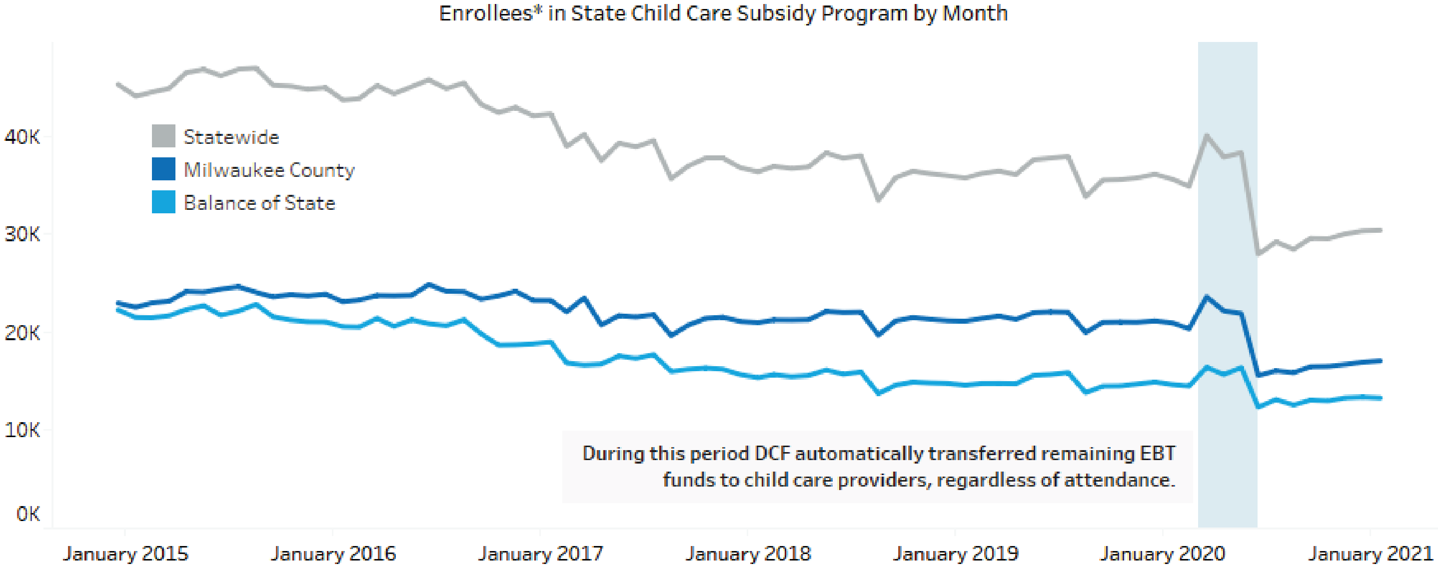
These enrollment trends also impacted state finances, as Wisconsin Shares payments generally rose and then fell in accordance with program participation. In this brief, we take a closer look at child care enrollment and fiscal trends during the pandemic and what implications they may have as policymakers write the next two-year state budget.

A SURPRISING INCREASE

In July 2020, the Forum looked at [closures of child care providers] throughout the state. We found that nearly 40% of providers reported they were closed as of May 19.

Figure 1: Children Enrolled in Wisconsin Shares Spiked, Fell to New Low

Enrollees* in State Child Care Subsidy Program by Month



Source: Wisconsin Department of Children and Families; *Note: Enrollment figures may be impacted by a change in the program's methodology implemented from October 2016 through April 2017.

Despite these closures and the governor's Safer at Home order, the number of families and children served by the Wisconsin Shares child care subsidy program actually increased in April, according to data from the Wisconsin Department of Children and Families (DCF). Payments made by the program to child care providers (known as issuances) also rose. These numbers did not drop off until July.

Typically, the number of children served by the program fluctuates seasonally: it peaks in July when kids are out of school for the summer, and drops to a low in September when they return to classrooms. In 2020, this cycle was disrupted by the coronavirus pandemic. The numbers peaked in April and remained high through June before dropping to the lowest level in at least five years in July.

According to DCF, a temporary state policy change in March allowed any extra funds remaining on families' Wisconsin Shares EBT cards to be automatically transferred to the provider (normally, a parent or guardian uses the card to pay providers directly and any remaining funds stay on the card). This policy was in place from April through June, which likely accounts for the increases in children and families served as well as issuances in those months.

This temporary policy change, along with the [Child Care Counts] emergency payment programs ($51 million) and supplemental payment programs ($80 million) DCF administered over the summer and fall using federal relief funds, gave additional financial support to Wisconsin's child care providers at a critical moment. The temporary EBT change also increased the state's costs – payments in April, May, and June were $12.6 million higher than during the same three months in 2019.

PANDEMIC-RELATED DECLINE

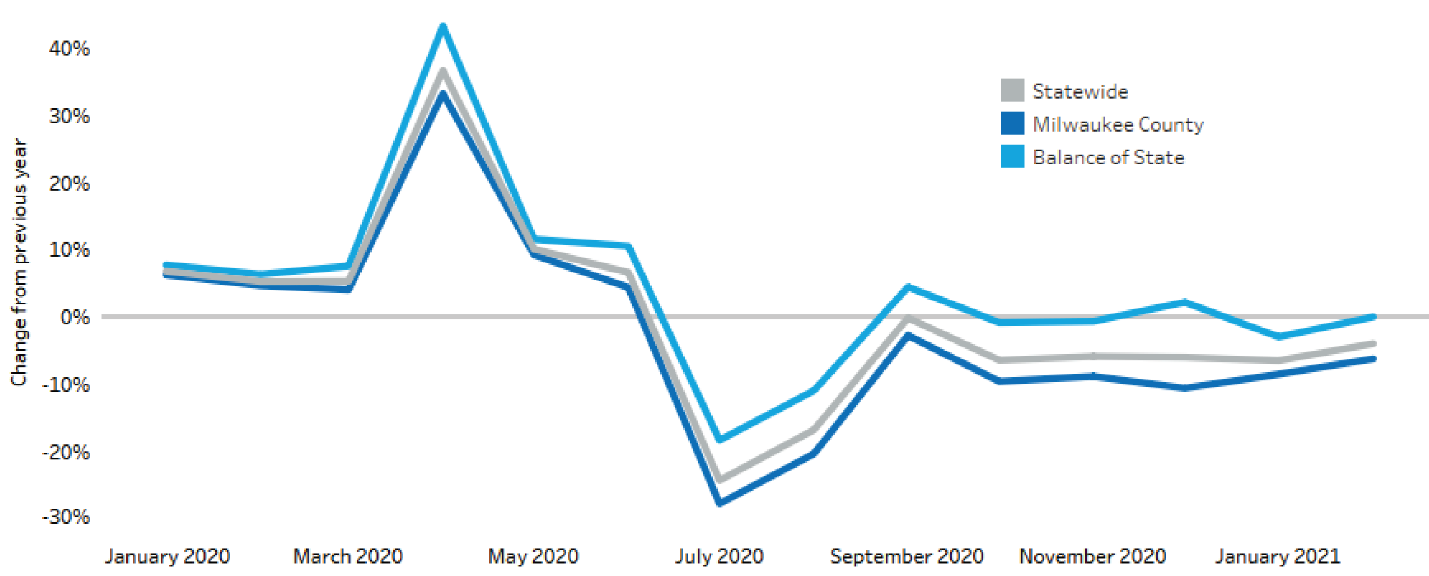
In July, with the usual policy back in place, the number of children served dropped well below early 2020 levels and was 26% lower than the same month in 2019. As of February of this year enrollment had yet to substantially rebound, with the total 15% lower than the same month a year earlier.

The drop may reflect, in part, families' continued concerns about the safety of child care facilities in light of COVID-19 as well as the effect of certain health orders that could affect the available capacity of providers. A major factor also is likely lingering unemployment – parents or guardians must be working or participating in another approved activity to be eligible to receive the Wisconsin Shares subsidy.

The amount the state spends on the program each month followed a similar trend. In December 2020, statewide Shares payments were down 6% compared to the previous December. Despite the spring spike in payments, spending for the program was slightly lower

Figure 2: State Child Care Payments Rose, then Fell Sharply During Pandemic

Year over Year % Change in Wisconsin Shares Subsidy Payments by Month



Source: Wisconsin Department of Children and Families than expected over the full calendar year. As a result of this underspending, DCF recently announced a temporary 21% increase in subsidies for children aged 0-3, which runs from March 1 to June 30.

While statewide payments have generally started to rise in recent months, that is not yet true in Milwaukee County, where they remained below pre-pandemic levels as of the end of last year ($14.4 million in December 2020 compared to $16.1 million in December 2019). That is not the case in the rest of the state, where the $9.2 million in payments in December 2020 surpassed the total of just under $9 million in December 2019. This may also be due, in part, to differences in the recovery of local economies statewide and the higher unemployment rate in the Milwaukee area as well as the effect of public health orders in Milwaukee County that have reduced capacity.

LOOKING AHEAD

The decrease in Wisconsin Shares usage is concerning given that it suggests many low-income parents have not yet returned to work and many providers may still be coping with reduced demand. Maintaining and improving access to affordable child care will be crucial to getting these parents and guardians – particularly mothers – back into the workforce.

In response, Governor Tony Evers has proposed a budget initiative called Child Care Strong, which aims to increase access to quality, affordable child care throughout the state, especially in underserved areas. The program, which is estimated to cost $70 million annually, focuses on some of the common challenges facing child care providers, including low margins, high staff turnover, and the high cost of providing care to infants and toddlers.

Among the provisions proposed in the budget are the establishment of monthly base payments to providers, bonus payments for those caring for infants and toddlers, and per-child monthly stipends to providers with a YoungStar rating of 3 or higher. YoungStar is the state's child care quality ratings system that uses a scale of 1 to 5 stars to assess the quality of child care providers based on factors like safety and staff credentials. All three programs include a requirement that more than half of these monthly payments be used to pay staff salaries and benefits to reduce turnover.

The budget would provide $53 million annually in general purpose revenues (mostly state tax collections) as well as $17.6 million in federal Temporary Aid for Needy Families funds (reallocated from current child care incentives) to fund the new program. However, this proposal to use state funds was made before full details emerged on a large increase in incoming federal funds.

Legislation adopted by Congress late last year increased child care block grant funds. Wisconsin is estimated to receive $147 million from this legislation, which exceeds the state's entire 2021 allocation of $136.8 million for the federal Child Care and Development Block Grant (CCDBG). These funds can be used to support child care providers who have decreased enrollments or closures, reduce family copayments to providers, or defray increased costs of cleaning and sanitation by providers. The money cannot be used, however, to replace state funding for current programs.

The recently passed American Rescue Plan Act includes $39 billion for child care, of which Wisconsin is slated to receive a staggering $581 million in increased CCDBG funds and new stabilization grants for providers, as well as additional funds under a section of the Social Security Act and a new pandemic emergency assistance program.

CONCLUSION

Moving forward, policymakers may wish to keep a close watch on Wisconsin Shares usage as a barometer of the pace at which low-income parents and guardians are returning to the workforce and to detect whether child care challenges may be impeding the pace of economic recovery. It may be particularly useful to look beyond the statewide totals to see whether particular regions such as Milwaukee County continue to lag in recovering.

Meanwhile, from a budgetary perspective, the influx of federal dollars offers an unusual opportunity for the state to vastly expand its support for families who rely on child care, child care providers, and their employees while minimizing the strain on state tax dollars. The caveat is that in doing so, policymakers also will need to consider whether they can sustain whatever changes they do make once federal funds are exhausted.