Early childhood education and care is critical to Wisconsin’s families and businesses, offering a safe place for children to grow and learn during formative years while parents and other guardians participate in the workforce. Despite its importance, however, child care can be prohibitively expensive for some Wisconsin families, and the industry operates on easily eroded margins and relies on low-paid labor.

In this brief, we seek to show how all three sets of stakeholders within the child care system – families, employees, and operators – can be struggling at the same time. An understanding of this mutual challenge is essential to analyzing potential policy solutions and is a safeguard against proposals that, in seeking to address challenges for one group, might exacerbate difficulties for others.

FAMILIES STRUGGLE TO AFFORD ESSENTIAL SERVICE

To illustrate these challenges, we examine the costs of child care provided in a licensed group center setting in Milwaukee County. (In a future report, we will extend our analysis to home-based care, care outside of Milwaukee County, and other variations.)

According to data from the state Department of Children and Families’ (DCF) 2022 Child Care Market Rate Survey, the average annual cost of care for a four-year-old in Milwaukee County is $12,142 and for an infant is $16,236, assuming 52 weeks of care. That is more expensive than in-state tuition at any University of Wisconsin campus, and equates to 22.2% (for a four-year-old) or 29.6% (for an infant) of the 2021 annual median household income in Milwaukee County. Federal guidelines recommend that no more than 7% of a household’s income go toward child care (see Figure 1).
The Wisconsin Shares Child Care Subsidy program provides qualifying Wisconsin families with assistance to help cover a portion of the cost of care. Families who participate in the program are responsible for a copay and any tuition not covered by the subsidy. We used DCF’s Market Rate Survey data and instructions for calculating out-of-pocket costs to model the average amount that two hypothetical families would pay out of pocket.

First, we looked at a family with two children (an infant and a four-year-old) receiving care and two parents who together earn the annual median household income for Milwaukee County ($54,793), positioning them at a bit more than 180% of the federal poverty line. We assumed that both children received full-time care at a group center rated at two stars out of a possible five on the state’s YoungStar quality rating scale (meaning the center meets basic health and safety standards) and that the center charged the average tuition rate for Milwaukee County. The total monthly cost of care without any subsidy would be $2,248, or 49.2% of the family’s monthly income. This family qualifies for Wisconsin Shares, however, and through the subsidy program would see its cost decrease to a monthly copay of $395, or 8.7% of its monthly income. The state subsidy greatly lessens the cost for this family but still leaves it paying more than the federal recommendation.

Second, we considered a family with a single parent and the same two children receiving care in the same setting. If this parent earned an annual income of $45,996, which puts the household at 185% of the federal poverty line, the total monthly cost of care without any subsidy would constitute 59% of the family’s monthly income. Through Wisconsin Shares, the cost to the parent would be a monthly copay of $413, or 10.8% of their monthly income.

Again, the state subsidy lowers the family’s costs but more than a tenth of this single parent’s income would still go toward child care. If the family’s household income were higher, it would not be eligible to apply for Wisconsin Shares and would be responsible for the full cost of care. (Wisconsin Shares does include a provision so that families who are already receiving assistance can continue to participate in the program until their income reaches a higher threshold – 85% of the state’s median income.)

The high cost of child care can burden not only families but also employers. At a certain point, when the cost of child care gets too high or combines with other considerations, a family may choose to keep an adult at home as a caretaker, essentially sacrificing wages and career opportunities for the sake of eliminating child care costs and meeting other goals. Employers then see a reduction in their current or potential workforce.

**CHILD CARE WORKERS STRUGGLE TO EARN A LIVING WAGE**

One might guess that such high costs for families would result in competitive wages for child care workers. Instead, our model of a two-star group center in Milwaukee County showed lead educators earning an average annual salary of only $24,981, with their assistants earning an even lower $22,152 per year. These inputs derive from DCF’s 2022 Market Rate Survey Results and represent DCF’s best current estimates of average wages at a two-star provider, to which we then applied DCF’s “regionalization factor” for urban centers like Milwaukee County.

Hourly wage comparisons emphasize how low child care worker pay is and why the industry struggles to retain employees (see Figure 2 on the following page). A lead educator’s $24,981 annual salary is equivalent to $12.01 per hour, assuming a 40-hour workweek. This falls under the $15 per hour starting wage increasingly adopted by “big box” stores like Target, meaning that a worker could earn more at any number of retail jobs, which in some cases may entail fewer responsibilities than caring for young children in a highly regulated environment. For example, if a prospective or current child care worker in Milwaukee County instead headed west to work as an Amazon warehouse associate in
Sussex, she could earn $18.50 per hour and receive benefits such as health insurance and a retirement plan that some child care centers may not offer.

Even within the early childhood education and care profession, a child care worker could find better financial prospects: local school districts employ kindergarten and often pre-K teachers who are covered under the district’s collective bargaining agreement with its teachers’ union, leading to higher salaries and greater benefits. For example, the starting annual salary for teachers at Milwaukee Public Schools (MPS) in the 2022-23 school year was $46,979. That translates to $22.59 per hour, assuming a 40-hour workweek paid over 12 months, or $30.75 per hour for a 40-hour week paid over the teacher’s 191-day contract, not counting benefits. Substitute teachers for MPS earn $25.00 per hour, although they do not receive benefits. MPS paraprofessionals, who typically provide supplementary academic and behavioral support to students, earn substantially less but still more than the average early childhood educator: $17.61 per hour as a starting wage.

Finally, some child care workers fall under the federal poverty line or qualify for public assistance. The U.S. Department of Health and Human Services’ 2023 poverty guidelines draw the line at $24,860 for a household of three. That means that a single mother with two children would barely clear the threshold if she were a lead educator at a two-star center, and an assistant at a center in the same circumstances would easily meet the criteria. With eligibility for programs like FoodShare (the name in Wisconsin for the program formerly known as food stamps) extending to 200% of the federal poverty line, even more child care workers qualify for some form of public assistance.

A randomized 2021 survey of early childhood educators in Milwaukee done by the Institute for Research on Poverty at the University of Wisconsin-Madison for DCF found that 45% of them live in a household that receives public health benefits, and 40% live in a household that receives FoodShare or Supplemental Nutrition Assistance Program (SNAP) benefits. These percentages reflect the responses of all early childhood educators surveyed, not solely those working at two-star providers.

Reports from the same survey and others highlight that women are the demographic group most impacted by these low wages and economic instability. DCF’s infographic illustrating “Wisconsin’s Early Care and Education Workforce at a Glance” shows that 98% of center-based educators in the state are women. The previously cited Milwaukee-specific survey yielded similar results, with 99% of early childhood educators in Milwaukee identifying as women. Unlike the statewide data, which showed white teachers making up 83% of the early childhood workforce, the Milwaukee survey
found that 71% of early childhood educators in the city are educators of color. Statewide and especially in Milwaukee, therefore, the burden of child care’s low wages falls upon workers who face greater overall and historical challenges in the labor market.

**CHILD CARE ECONOMICS IN ACTION**

Where do these low wages for workers and high costs for families leave child care operators? To illustrate the dynamics at work here, we adapted the U.S. Department of Health and Human Services’ [Provider Cost of Quality Calculator](#), using available state and national data to roughly model the costs and revenues of a sample child care center. We began with the baseline scenario of a licensed Milwaukee County group care center operating with minimal staff. Our hypothetical center has one classroom per age group and a two-star rating. As previously noted, five stars is the highest possible rating on the state’s YoungStar rating scale; a two-star rating means the center meets basic health and safety standards but may not meet other criteria such as higher-level staff credentials and training and additional enrichment for children.

The actual circumstances of Wisconsin child care providers may deviate significantly from this scenario, but our model allowed us to see how a relatively bare bones operation might fare in the county home to the majority of Wisconsin Shares recipients. Our future report will build upon this model to show additional scenarios and variations.

The results of our baseline modeling on the surface initially seemed promising for providers. Our model yielded 9% annual net revenue (see text box for definition) for this sample group care center. The result suggests the center in theory could operate with a sufficient profit margin to sustain itself over time, provided that it could attract and retain both families and workers at the assumed rates.

Yet, as we have seen, such an assumption can hardly be taken for granted, as reality can be much more challenging. Our model used the previously cited annual salaries of $24,981 for lead teachers and $22,152 for teachers’ assistants, which may not be enough to stave off worker turnover at this center. On the family side, we used a revenue assumption from the same DCF source, which showed that a family paying the full cost of tuition without subsidy help would owe $225 to $293 (depending on the age of the child) per child per week. That would be between 21.3% and 27.8% of the county’s median household income.

The volatility of this center’s operations was further illustrated by how the same cost of care and tuition inputs could yield quite different net revenue figures depending upon the “enrollment efficiency” input used. Enrollment efficiency refers to the percent of a center’s maximum staffed capacity that is actually enrolled. For example, if a center has enough teachers and classrooms to serve 100 children, but only 80 children are enrolled on a full-time basis, its enrollment efficiency is 80%. Our model’s 9% net revenue number came from assuming an enrollment efficiency of 85%, to which the PCQC calculator defaults as a reflection of good business practice. Multiple interviewees and a national survey indicated, however, that many Milwaukee and Wisconsin centers operate at significantly lower enrollment efficiencies, in large part due to staffing shortages. If we decreased the enrollment efficiency by even five percentage points to

**Methodology and Terminology**

We built our child care center financial model using the U.S. Department of Health and Human Services’ Provider Cost of Quality Calculator (PCQC), which provides a framework for analyzing the relationship between a center’s costs and revenues. We selected the model’s inputs based on available DCF data and national data and PCQC recommendations. Key decisions beyond those already marked in the text included:

- Using the available Provider Price Ranges for “Zone D” (which includes Milwaukee County and other predominantly urban areas in the state) cited in the DCF Market Rate Survey to set the full-price tuition inputs. Tuition at two-star and three-star providers was set at the median, or 50th percentile level; tuition at five-star providers was set at the 80th percentile, the highest available in the DCF data.
- Not including additional expenses beyond what the PCQC framework already accounted for. For example, costs related to depreciation and taxes are not included. Set-aside funds for contingency or building cash reserves are also not included.

The model also uses the term “percent of net revenue” to refer to the difference between a center’s revenue and its expenses, expressed as a percent of its total revenue. This amount may or may not be the same as a center’s profit margin, depending on whether the center has costs or revenues beyond what the calculator accounts for.
80%, net revenue for our model center plummeted to 3% - a much lower margin.

Why do such low wages and high tuition rates not result in greater net revenue for our model two-star center? The reason lies in the need for low staff-to-child ratios. As a safety matter, state law sets out a maximum number of children for which each adult can be responsible. The number rises as the age of the children rises, so that a single adult can supervise 13 four-year-olds at a time but only four infants. These low thresholds may be best for children and the adults charged with their care and are consistent with national best practice recommendations, but they also mean child care centers must invest heavily in staffing. Even relatively high per-child tuition revenue only goes so far when it must be split among a number of staff, yielding the low wages and net revenue that we saw earlier.

In our model, fully half (50.4%) of the center’s expenses are attributable to personnel, including wages, mandatory benefits (workers’ compensation, unemployment, and disability), voluntary benefits (in this case, solely paid time off since many centers do not offer health insurance or retirement benefits), and training fees and background checks (see Table 1). Non-personnel expenses make up the other half of the baseline center’s costs. The five largest non-personnel expense categories are, from most to least expensive: food and kitchen supplies; rent, lease, or mortgage; maintenance, cleaning, and repairs of building and grounds; education and office supplies and equipment; and utilities and information technology support. Providers can find efficiencies in these areas – for example, the large cost of food may be wholly or partially defrayed for centers that qualify for reimbursement through the federal Child and Adult Care Food Program – but only up to point. For that reason, attempts to raise wages for child care workers without outside funding can affect a center’s net revenue or families’ costs. In short, the labor-intensive nature of child care leaves providers with less room to maneuver as a business.

In some respects, the function and costs of child care have more in common with K-12 education than with many other small businesses. Public school districts can see over 80% of their operating budgets taken up by personnel costs and, similar to child care centers, are subject to a plethora of federal, state, and local regulations and policies that can add to their costs. Unlike centers, however, which typically rely on revenue from tuition paid by families or, to a lesser extent, state subsidies, K-12 public schools are funded by dedicated state, local, and federal funding streams, with an average of $12,740 spent per Wisconsin pupil on operations in 2020. Districts can also leverage economies of scale to lower the amount and proportion of per-student spending that goes toward non-personnel expenses and can maintain higher teacher-to-student ratios than child care centers. Center operators are far more limited in their ability to offer higher wages or benefits because of how quickly those additions would affect their bottom line or translate into untenably higher costs for families.

**THE COST OF QUALITY**

We saw the effect of increased personnel costs when we adjusted our model to show a sample child care center with a three-star YoungStar rating, widely considered the entry point for “quality care” that goes beyond simply meeting health and safety standards. Centers can earn three stars or higher by undergoing a separate evaluation process, which addresses four “elements of program quality”: lead staff education, learning environment and curriculum, business and professional practices, and the health and well-being of children. Lead staff education is the most visible source of additional cost for providers seeking to increase their
YoungStar rating, as the state stipulates the education qualifications (training, courses, credentials, credits, or degrees) that center directors and lead teachers must hold at each "star" level. Recruiting and employing more qualified staff is costlier for center operators.

Specifically, our model showed salary costs for the sample three-star Milwaukee County group care provider rose by 4.5% compared to the two-star provider, with lead educators now earning $24,981 per year (4.6% more than in the baseline) and their assistants earning $22,152 per year (3.0% more).

The center director’s salary also went up, by 11.3%, benefit costs increased by 3.5%, and training fees and background checks cost 86.5% more (although the total amount for this last input remained relatively small at $5,390). With no accompanying change in revenue streams included in the model, these cost increases ate into the center’s net revenue, which dropped from 9% to 7% when the enrollment efficiency was set at 85%. (Under an 80% enrollment efficiency, the two-star provider’s original 3% net revenue would drop to 1% with the addition of a third star.)

In reality, a three-star center may be able to charge more than a two-star center, but available state data did not allow for making that distinction. We were, however, able to estimate the increased revenue for four- and five-star providers and could factor that into our analysis.

At the top of the quality rating scale, the personnel budgetary pressure for a five-star provider had increased to the point that our model showed expenses exceeding revenue, leaving the sample center with net revenue of -1%. That is, the center’s total costs outstripped its total revenues by an amount equivalent to 1% of its total revenues. (Again, this net revenue figure assumes 85% enrollment efficiency; at 80% efficiency, net revenue for this model would be -7%.)

Salary costs were 68.7% higher than in the baseline scenario, reflecting the additional staff credentials required to earn the five-star rating, and benefit costs were 61.1% higher. Tuition also rose, since the center could charge more for the higher quality of service, but that 21.3% increase was not enough to fully counteract the personnel cost increase. At this five-star provider, personnel costs now made up 63.1% of the total budget (see Figure 3).

The tuition increase could spell trouble for families already stretched to pay for care. A family paying full tuition without any subsidy from Wisconsin Shares or another source was now responsible for $274 to $352 per child per week (depending on the age of the child). Returning to our two sample families and now imagining them paying for five-star care, the two-parent, two-child family would pay $2,717 per month, or 59.5% of its monthly income, toward child care if it did not receive a Wisconsin Shares subsidy. The subsidy would reduce the cost per month to $395, or 9.4% of monthly income, reflecting the family’s copay plus the tuition amount not covered by the subsidy.

For the single parent, two-child family, paying for five-star care would account for 71% of its monthly income without Wisconsin Shares. The subsidy would reduce the cost per month to $450, or 11.7% of monthly income. Again, this amount was the sum of the family’s copay and the uncovered tuition amount. These additional costs mean that both hypothetical families would be pushed even further past the federal guideline of 7% of income.

With the increased personnel costs straining the budgets of both our sample five-star center and the families it serves, one might hope that workers at least would do well. The model did indeed show increased earnings for workers but made perhaps less of a
difference than one might expect: the high number of staff meant that the increase was spread thin. Lead teachers now earned $30,819 and teachers’ assistants earned $25,270 – a difference of $5,838 and $3,118, respectively, from their two-star salaries.

While these raises would provide some additional resources to workers, they still mean that workers at the highest-quality providers likely continue to make slightly less than if they worked at a major retail store and substantially less than if they were hired by the local public school district (see Figure 2 on page 3). They are also below the salaries recommended by DCF for these positions based on the median Wisconsin workforce wages at similar educational levels, and specifically in comparison to kindergarten teachers. These recommendations, after applying DCF’s regionalization factor, are $59,623 per year for lead early childhood educators, almost twice as much as the current salary in our model, and $39,184 per year for their assistants, 1.6 times our modeled salary.

Given the relatively small potential gain in salary, it is not clear that child care workers would see an adequate benefit in the additional time, effort, and expense to pursue the credentials necessary to work at a five-star center. Operators may also see little gain in pursuing the five-star rating because of the associated costs.

Provider interviews highlighted the salary-based workforce challenge facing the industry. We spoke with officials from two five-star providers, who noted that they are currently offering salaries above the levels used in our model and yet still struggle to attract and retain staff. While some of this issue is likely tied to the current overall tight labor market, similar if lesser concerns have plagued child care operators for years.

These interviews also suggested how a five-star provider remains operational despite such difficult margins. Interviewees noted that owner-operators routinely take cuts to their own salary in order to finance centers’ continued operation. Centers may also benefit from philanthropic dollars or gain access to other revenue streams by offering programs like Head Start or the Child and Adult Care Food Program.

We will explore some of these additional scenarios in a later report, but the key point remains that, absent external investments or interventions, the cost of quality can quickly erode operators’ sustainability and further strain families’ budgets without providing compensation to child care workers that reflects the social and economic importance of their work. These dynamics undermine efforts to increase access to high-quality early childhood education, despite research supporting its value to families and society.

TEMPORARY RELIEF VIA CHILD CARE COUNTS

The arrival of federal pandemic relief funds for child care marked an opportunity for Wisconsin not only to support providers and families during the disruption of COVID-19, but also, for a time, to address some challenges that predated the disease.

DCF designed the Child Care Counts program to allocate the federal funds directly to child care providers primarily in five areas:

- Funding to care for the children of essential workers
- Incentive pay for providers and individual educators
- Support for temporarily closed child care providers
- Providing for increased access to high-quality child care
- Funding staff recruitment and retention efforts

Payments for the first three priority areas came with a spending deadline of June 30, 2021, reflecting their intent to address immediate needs during the pandemic. Applications for funding in the final two priority areas first opened in September 2020 and remain open as of publication through the Child Care Counts: Stabilization Payment Program, which began in November 2021 and issues monthly payments to approved providers.

The impact of Child Care Counts can be measured in part by how much money the program has distributed. Using data published by DCF counting payments issued through February 18, 2023, we found that the 4,892 participating child care providers across the state had received an average of $116,816 each thus far. The largest total amount received by a single provider, which may operate at more than one location, was $2.2 million. The smallest was $50.

Among Milwaukee County providers, the average amount of Child Care Counts funding received so far...
was $79,710 per provider. The smallest total amount received by a single provider was $120. The largest was $1.6 million.

In raw numbers, the largest amounts of money statewide went toward increasing access to high-quality child care ($314.5 million) and workforce recruitment and retention ($206.0 million) (see Figure 4). The smallest total payments went to support for temporarily closed programs ($4.3 million) and incentive pay for providers and individual educators ($9.8 million).

The high total payments for these two longer-running grant programs – increasing access to high-quality care and workforce recruitment and retention – not only speak to the longevity of their operation, but also suggest the appetite from providers to invest in these often costly areas that are nevertheless critical to sustaining the sector and delivering high-quality service to families.

Testimony from providers offers further details on both the use and the impact of the Child Care Counts funding. A non-randomized October 2022 survey of Wisconsin providers by the National Association for the Education of Young Children found that 27.1% of providers surveyed would have closed had they not received federal funding through the Child Care Counts programs noted above. A majority (60.6%) reported that they will have to increase tuition when the federally-funded stabilization grants expire, while one third (33.6%) reported that they will need to cut wages or pull back pandemic-era wage increases when the programs run out.

Separately, a report by the Institute for Research on Poverty drew upon DCF-administered questionnaires to conclude that “[the] program appears to have provided much-needed monetary relief to child care programs across the state....Providers demonstrated an acute need for the funding; often to simply make ends meet, but also to address staffing issues and make improvements in their facilities and programming.” The report also noted that the short-term nature of the funding appears to have limited providers’ willingness to make needed long-term investments like permanent salary increases and benefits offerings that might resolve core economic challenges in the industry.

**IN SEARCH OF SUSTAINABLE SOLUTIONS**

As the January 2024 expiration date for Child Care Counts draws near, policymakers face a choice. On the one hand, they might allow the economics of early childhood education and care to revert back to pre-pandemic policies, thus, at least for now, re-creating the same or even greater challenges for families, child care workers, child-care operators, and employers.

On the other hand, policymakers might establish new funding streams or partnerships that could retain some of the relief that Child Care Counts provided and prime a more permanent set of solutions. If led by government, there would be a cost to taxpayers from these efforts. That cost would need to be weighed against potential benefits for the affected groups and the overall labor market. For example, by one recent national estimate, the consequence of any problems with child care (defined to include both individual concerns like a sick child and structural concerns like low accessibility and large expense) costs working parents an average of $3,350 in lost earnings per year and businesses an annual average of $1,150 per working parent. To reduce the taxpayer impact of addressing the issue, efforts also could be undertaken to leverage financial support from employers or philanthropy.

Given the state’s sizable budget surplus and overall sound financial health, the upcoming two-year budget offers the best opportunity in decades to ensure that high-quality, affordable early childhood care and
education is available for all Wisconsin residents, and that the economic challenges facing early childhood centers, workers, and families are alleviated. Governor Evers’s proposed budget included funding and new proposed partnership programs, and lawmakers now have their chance to remove or modify the governor’s proposals. As they and the public consider the available options, we hope this brief look at the economics of early childhood offers helpful context.

The stakes are substantial for families, providers, other businesses, and taxpayers. At its best, high-quality, affordable, and accessible child care not only supports the development of our state’s youngest residents, but also the ability of parents and guardians to participate in the workforce. Both are critical contributors to the short-term and long-term strength of Wisconsin.