Children and Families

Economic Support and Child Care

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May 14, 2015 Joint Committee on Finance Paper #210

Revised Estimates for TANF-Related Programs (Children and Families -- Economic Support and Child Care)

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INTRODUCTION

The purpose of this paper is to establish a projected 2015-17 ending balance in federal funding from the temporary assistance for needy families (TANF) block grant. The paper includes reestimates of revenues and expenditures for 2015-17 based upon more recent information and fully funding projected costs of certain programs administered by the Department of Children and Families (DCF).

The paper provides a new TANF base for the Committee to work from based on projected costs of programs under the bill. Subsequent papers address alternatives that the Committee could consider regarding specific TANF-related programs.

The following table shows the estimated revenues and expenditures for W-2 and other public assistance programs under the bill. The table compares the administration's figures with revised estimates prepared by DCF and this office.

W-2 and TANF-Related Revenue and Expenditures

	Governor 2015-16	Governor 2016-17	Reestimate 2015-16	Reestimate 2016-17	Change to Governor 2015-16	Change to Governor 2016-17
Revenues						
General Purpose Revenue in DCF (GPR)	$160,623,800	$160,373,800	$160,373,800	$160,373,800	-$250,000	$0
TANF Prior-year Carryover (all funds)	74,582,200	79,000,000	122,617,900	103,153,800	48,035,700	24,135,800
TANF Block Grant (FED)	312,713,400	313,861,200	312,713,400	313,896,000	0	34,800
Child Care Block Grant (FED)	91,463,900	91,188,900	91,123,300	91,188,900	-340,600	0
Overpayment Recoveries (FED)	4,286,600	4,287,600	4,286,600	4,287,600	0	0
TANF Contingency Fund (FED)	50,000,000	0	15,031,500	0	-34,968,500	0
SSBG from DHS (FED)	100,000	100,000	100,000	100,000	0	0
Child Support Collections (PR)	3,010,800	3,010,800	3,010,800	3,010,800	0	0
Child Care Licensing Fees (PR)	1,700,400	1,715,900	1,700,400	1,715,900	0	0
AFDC Overpayment Recoveries (PR)	160,600	160,600	160,600	160,600	0	0
Income Augmentation Carryforward (PR)	4,730,300	0	4,730,300	0	0	0
Public Benefits Fund (SEG)	9,139,700	9,139,700	9,139,700	9,139,700	0	0
Total Revenues	$712,511,700	$662,838,500	$724,988,300	$687,027,100	$12,476,600	$24,188,600
Expenditures						
W-2 Agency Contracts and Benefits						
Benefits	$89,796,000	$88,796,000	$83,000,000	$83,000,000	-$6,796,000	-$5,796,000
Contracts	58,336,500	58,336,500	58,336,500	58,336,500	0	0
Other TANF Employment Programs						
Transitional Jobs /Transform Milwaukee	6,000,000	7,000,000	6,000,000	7,000,000	0	0
Child Care						
Direct Child Care Subsidies	267,945,900	286,777,400	262,064,700	280,719,700	-5,881,200	-6,057,700
Child Care State Administration and Licensing	34,244,600	33,248,300	35,244,600	33,248,300	1,000,000	0
Quality and Availability Programs	15,492,700	15,492,700	15,492,700	15,492,700	0	0
Other Benefits						
Kinship Care	21,222,700	21,435,000	21,222,700	21,435,000	0	0
Caretaker Supplement for Children of SSI Recipients	31,338,200	31,338,200	31,338,200	31,338,200	0	0
Emergency Assistance	8,500,000	8,400,000	8,500,000	8,400,000	0	0
Administrative Support						
State Administration	14,834,100	14,967,700	14,834,100	14,967,700	0	0
Local Fraud Aids	605,500	605,500	605,500	605,500	0	0
Other Support Services						
Children First	1,140,000	1,140,000	1,140,000	1,140,000	0	0
Grant Programs						
Boys and Girls Clubs	1,100,000	1,100,000	1,100,000	1,100,000	0	0
Wisconsin Community Services	400,000	400,000	400,000	400,000	0	0
Fostering Futures- Connections Count	0	360,300	0	360,300	0	0
Expenditures in Other Programs						
Earned Income Tax Credit	62,500,000	62,500,000	62,500,000	62,500,000	0	0
Social Services Block Grant	15,018,700	14,653,500	15,018,700	14,653,500	0	0
Child Welfare Safety Services	3,647,200	5,392,700	3,647,200	5,392,700	0	0
Child Welfare Prevention Services	1,389,600	1,389,600	1,389,600	1,389,600	0	0
Total Expenditures	$633,511,700	$653,333,400	$621,834,500	$641,479,700	-$11,677,200	-$11,853,700
Ending Balance	$79,000,000	$9,505,100	$103,153,800	$45,547,400		

REVISED ESTIMATES OF REVENUES AND EXPENDITURES FOR TANF RELATED PROGRAMS

As shown in the table, the closing TANF balance for the 2015-17 biennium is estimated to be $36 million higher than projected under the bill. Revised estimates of TANF-related revenues are $12.5 million higher* and expenditures are $23.5 million lower than previously estimated. This is primarily due to three factors: a greater carryover of TANF funding from 2014-15, lower expenditures for W-2 benefits, and lower expenditures under the child care subsidy program.

Carryover of TANF funds from 2014-15 to 2015-16. TANF-related revenue is expected to exceed TANF-related expenditures in 2014-15 by $122.6 million. This excess revenue is carried forward to be spent in future years. This amount is $48 million higher than the amount estimated under the bill. Overall, the carryover represents an increase in base revenue of $33.9 million and a reduction in base expenditures of $14.1 million.

Revenue in 2014-15 is higher than expected for two reasons. First, DCF has received TANF contingency funding of $34.9 million in 2014-15 which DCF was projected under the bill to receive in 2015-16. Such funding is now reflected in the 2014-15 carryover into 2015-16. Second, federal discretionary funding awarded under the child care development block grant for 2014-15 is $1 million lower than anticipated.

Expenditures in 2014-15 are lower than expected for five reasons. First, more recent caseload and issuance data for base level spending for W-2 benefits through February, 2015, is $9 million below the previously estimated base amount. Second, actual expenditures in 2014-15 for direct child care subsidies were below the estimate by $5.5 million. Third, contract expenditures for the Transform Milwaukee subsidized employment program are $2 million higher than estimated. Fourth, DCF has determined that $1 million anticipated to be spent in 2014-15 for the implementation of the electronic benefits transfer system for the child care subsidy program will be spent during the 2015-17 biennium. Finally, based upon more recent information, it is estimated that funding for the caretaker supplement will be $0.6 million less than previously estimated.

W-2 Benefits. From the W-2 benefits allocation, DCF pays a monthly grant amount to W-2 participants placed in subsidized employment positions and to participants who receive a caretaker of a newborn infant grant or an at-risk pregnancy grant. The bill assumed that caseload and spending levels would remain flat over the 2015-17 biennium.

The table includes the revised estimated costs of W-2 benefits under the bill, including proposed statutory changes to lower the lifetime participation limit from 60 months to 48 months. The reestimate is based on more recent caseload and issuance data through February, 2015, which is $9 million lower than previously assumed. Adjusted for the lower base year expenditures, the estimated cost of W-2 benefits is lower by $6.8 million in 2015-16 and $5.8 million in 2016-17.

Child Care Subsidies. Wisconsin's child care subsidy program, known as "Wisconsin

*The TANF prior-year carryover of $17.4 million from 2015-16 into 2016-17 is not included as revenue because such funding is already reflected in revenues for 2015-16.

Shares," provides child care assistance for low-income families to enable eligible persons to work or to prepare for employment. Under the program, the state subsidizes the cost of child care charged by providers chosen by the parent.

The bill would reduce funding for the child care subsidy program, Wisconsin Shares, by $6.8 million in 2015-16 and increase funding by $12 million in 2016-17. The reestimate is based on estimated caseloads, subsidy amounts, the implementation costs of the electronic benefit transfer (EBT) system, and adjustments under YoungStar, the state's quality rating and improvement system.

The table includes the estimated costs to fully fund the direct child case subsidy program under the bill. This reestimate is based upon more recent caseload and issuance data for base level spending in the direct child care subsidy program, which were lower than previously projected. With these adjustments, the estimated cost of the child care subsidy program is lower than the estimates used in the bill by $5.9 million in 2015-16 and $6.0 million in 2016-17.

MISCELLANEOUS REVENUES AND EXPENDITURES FOR W-2 AND RELATED PROGRAMS

In addition to the revisions for child care subsidies, W-2 benefits, and the 2014-15 carryover, the revised estimates also reflect updated information in the following areas.

TANF Block Grant. The above table shows an increase of $34,800 in 2016-17 to reflect a more accurate estimate of base funding received under the TANF block grant.

TANF Contingency Fund. Federal law establishes a TANF contingency fund to provide additional matching grants to states during times of economic downturns if certain conditions are met. Under the bill, it was estimated that the state would receive a total of $50 million FED in 2015 and 2016. The above table reflects that DCF has now received TANF contingency funding of $34.9 million for 2014-15. As a result, the prior year carryover from 2014-15 is higher and the TANF contingency funding for 2015-16 is lower by $34.9 million.

Child Care Development Block Grant (CCDBG). The CCDBG provides a combination of federal funds for child care services for low-income families and to improve the quality and supply of child care for all families. The table above shows a decrease of $340,600 in 2015-16 from the estimate under the bill because the discretionary portion of the CCDBG has been decreased to reflect the award letter for 2015-16.

State General Purpose Revenue. The bill would transfer $250,000 GPR from child support administration to TANF-related programs. The transfer was meant to bolster TANF revenues, which DCF had projected in its agency request to be in a structural deficit over 2015-17. As a result of increased TANF contingency funding, the GPR transfer from child support administration is no longer necessary in order to fund the administration of TANF-related programs. The return of $250,000 GPR into state child support operations would generate federal matching funds of $485,300 FED under Title IV-D of the Social Security Act.

Child Care Administration. As discussed above, DCF indicates that $1 million in funding provided for the implementation of the Wisconsin Shares EBT system will now be spent during

2015-16. Therefore, the table reflects the additional expenditure of $1 million for child care administration.

ENDING TANF BALANCE

As indicated in the table, the revised estimate for the 2016-17 ending TANF balance is $45.5 million. However, ongoing expenditures are estimated to exceed ongoing revenue by $57.6 million in 2016-17. Projected over the 2017-19 biennium, the structural deficit would be $69.7 million more than the 2016-17 ending balance. Further, as discussed in other papers, the state may face penalties from the federal government for failing to meet work participation targets in the W-2 program. Such penalties could exceed 5% of the funding from the TANF block grant ($15.7 million). As a result, large reductions in program spending may be required in order to fund TANF-related expenditures in the 2017-19 biennium.

In addition, the closing TANF balance may be needed to cover shortfalls and unexpected expenses in TANF-related programs in the 2015-17 biennium. For example, DCF indicates that recent changes in federal law from the reauthorization of the CCDBG may require the state to incur additional costs in child care administration in order to comply with updated federal regulations. DCF currently expects that such costs could exceed $10 million.

Finally, if the Committee chooses to add funding to any TANF-related programs, such as child care provider reimbursement rates, or to provide funding for new programs, then the ending balance would be reduced and/or reductions in other TANF programs would be required.

MODIFICATION

Modify the Governor's recommendations to reduce federal funding budgeted for TANF related expenditures by $11,677,200 FED in 2015-16 and $11,853,700 FED in 2016-17 due to reestimates for the 2015-17 biennium as follows: (a) decrease funding for W-2 benefits by $6,796,000 in 2015-16 and by $5,796,000 in 2016-17; (b) decrease funding for direct child care subsidies by $5,881,200 in 2015-16 and $6,057,700 in 2016-17; and (c) increase funding for child care state administration by $1,000,000 in 2015-16. Also, increase federal funding for child support administration in 2015-16 by $485,300 FED.

	Change to Bill
FED	- $23,045,600

Explanation: This modification reflects more recent TANF-related program revenue and expenditure information than was available when the Governor's budget was prepared (data through March, 2015, instead of data through January, 2015, used in developing the Governor's bill). The bill transfers $250,000 GPR in 2015-16 from child support administration to TANF-related programs. The modification would remove the transfer (and therefore there is no change in overall GPR funding). It is projected that removing the transfer would generate federal matching funds for child support enforcement of $485,300 FED in 2015-16.

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May 14, 2015 | Joint Committee on Finance | Paper #211

Wisconsin Works Lifetime Benefit Limit (Children and Families -- Economic Support and Child Care)

[LFB 2015-17 Budget Summary: Page 99, #2]

CURRENT LAW

Wisconsin Works

The Department of Children and Families (DCF) administers Wisconsin Works (W-2), a work-based program that provides training and support services to assist low-income parents obtain permanent and stable employment. In addition to providing paid employment placements, W-2 provides for related employment support services and for cash assistance to certain eligible families. Local W-2 agencies help applicants participate in work preparation activities, find or keep jobs, and pay for the costs of maintaining employment.

Community service jobs (CSJ) are intended for participants who are not ready for unsubsidized employment. The CSJ placement provides work experience and training to develop the skills necessary to succeed in a normal job environment. In addition to placement with public, private, or nonprofit worksites, a CSJ may also include education and training. A full-time CSJ placement provides a monthly payment of $653.

W-2 transitional placements (W2T) are meant for individuals who are unable to perform independent, self-sustaining work due to barriers to employment, such as alcohol and drug abuse, medical or physical problems, mental health issues, and learning disabilities. Participants may be assigned to work activities such as a community rehabilitation program or a job similar to a community service job or a volunteer activity. A W2T placement may also include education and training activities, drug treatment programs, and other mental and physical rehabilitation activities. A W2T placement provides a monthly payment of $608.

Lifetime Limit on TANF Assistance

W-2 is funded in part with federal funds from the temporary assistance to needy families (TANF) block grant. Under federal law, TANF block grant funds cannot be used to provide assistance to a family that includes an adult who has received assistance under any state program funded with federal TANF monies for 60 months or longer (whether or not consecutive).

State law sets a 60-month lifetime participation limit as a condition of eligibility for W-2 employment positions and job access loans. Under state and federal law, except for limited exceptions, all months in which individuals participate in the following programs accrue against the 60-month lifetime limit: (a) W-2 employment positions; (b) the job opportunities and basic skills program under prior law beginning on October 1, 1996; and (c) any program in Wisconsin or any other state in which benefits received were funded by federal TANF dollars. A household containing a W-2 participant and his or her dependent children is referred to as a "W-2 group." A W-2 group's 60-month limit is calculated using the adult member with the greatest number of accumulated months. The 60-month limit begins running for an individual when that individual attains the age of 18. The months in which an individual receives a reduced or no W-2 benefit due to a sanction also count toward the time limit.

In addition to the 60-month lifetime limit, each type of W-2 employment placement has its own cumulative 24-month time limit. Therefore, a participant may, at most, participate for 24 months in each of the placement types unless granted an extension by the W-2 agency.

Extensions of TANF Assistance

Federal law allows states to exempt up to 20% of the average monthly number of families receiving assistance in a year from the 60-month time limit by reason of hardship (as defined by the state) or if the family includes a member who has been battered or subjected to extreme cruelty (such as physical, mental, or sexual abuse). Under state law, the 60-month time limit may be extended if the W-2 agency, subject to review by DCF, determines that "unusual circumstances" warrant an extension. According to administrative rules, unusual circumstances means that the W-2 participant: (a) is unable to work because of a personal disability, or is needed at home to care for a severely incapacitated member of the W-2 group; (b) has significant limitations to employment (such as severe family problems or low achievement ability, a learning disability, or severe emotional problems that are not sufficient to meet the criteria for eligibility for social security disability insurance or supplemental security income); or (c) has made all appropriate efforts to find work but local labor market conditions preclude finding a job that pays at least the minimum wage and conforms to applicable federal and state laws. An extension may be granted for a period of up to twelve months. Subsequent extensions may also be granted.

Individuals who have reached their participation limit and are no longer eligible for a paid placement under W-2 may still receive services under an unpaid case management placement. To be eligible for the placement, the participant must meet W-2 financial and nonfinancial eligibility criteria, with the exception of the 60-month time limit. The goal is to match the individual to employment, connect the individual and family to services in the community, and reassess on a monthly basis whether the individual is eligible for an extension.

GOVERNOR

Reduce the lifetime limit for W-2 employment positions and job access loans from 60 months to 48 months. The bill would not alter the 24-month participation limits for W-2 employment positions.

In addition, modify state law regarding extensions of the participation period to conform to federal law. A W-2 agency would be authorized to extend an individual's participation beyond 48 months if it determines that the individual is experiencing hardship or that the individual's family includes an individual who has been battered or subjected to extreme cruelty.

These provisions would first apply to W-2 participants on the bill's effective date, except that DCF would have discretion to allow individuals currently participating in W-2 to remain in the program for an appropriate period of time beyond 48 months in order to allow for transition out of W-2.

The administration estimates that the W-2 program would save $1 million in 2015-16 and $2 million in 2016-17 from lowering the lifetime participation limit to 48 months and from modifying state law provisions for granting extensions.

DISCUSSION POINTS

Reduction of the W-2 Lifetime Limit from 60 Months to 48 Months

1. Under the previous aids to families with dependent children (AFDC) program, there was no lifetime limit on the receipt of federal assistance. As of 1998, TANF and W-2 completely replaced AFDC in Wisconsin. Federal TANF laws and regulations now provide for a 60-month lifetime limit. States may enact shorter time limits.

2. In her testimony before the Joint Committee on Finance, the DCF Secretary indicated that the participation limit introduced by TANF induced many participants to find employment and leave public assistance more quickly than they otherwise may have done. The administration indicates that reducing the lifetime participation limit to 48 months would similarly encourage transition to employment and reduce dependence on government assistance.

3. According to the U.S. Department of Health and Human Services, as of July, 2013, fourteen states have set lifetime limits on TANF assistance which are shorter than the 60-month federal limit. Most of these states set a lifetime limit of 48 months. Additional states also set other types of limitations which interrupt or restrict benefits, such as limits on the allowable number of months of participation within a certain time period or a reduction in benefits after a time limit is reached.

4. Under state law, the lifetime participation limit applies to an individual's participation

in W-2 and job access loans, whether or not occurring in consecutive months over an individual's lifetime. Therefore, under the bill, the reduction of the lifetime participation limit from 60 months to 48 months would apply to past, present, and future participants.

5. The administration estimates that the W-2 program would save $1 million in 2015-16 and $2 million in 2016-17 from lowering the lifetime limit to 48 months. The estimated savings result from the reduction of placements of individuals in paid employment positions who have more than 48 months of participation. The estimates assume that growth in expenditures for W-2 benefits will remain flat over the biennium. As a result, the administration estimates that net spending for W-2 benefits would decrease by $3 million over the biennium under the bill.

6. The administration's estimates of W-2 benefits appear to be reasonable given recent trends in participation levels in the W-2 program. In addition, the estimated savings are reasonable given the percentage of individuals having more than 48 months and less than 61 months of participation.

Effect on W-2 Placements

7. In her testimony, the Secretary indicated that most W-2 participants do not exceed the 60-month lifetime limit. The average duration of participation is 22 months.

8. Further, as shown in the following table, most participants who "time-out" on the 60-month lifetime participation limit while active in W-2 continue to receive an extension of a paid placement for unusual circumstances.

TABLE 1

W-2 Cases with 60 or More Months of Participation

	2007	2008	2009	2010	2011	2012	2013	2014
No Request for Service or Extension	71	66	59	91	168	161	137	169
Case Management for Denied Extension*	344	318	288	79	177	474	401	617
Extension in Paid Employment Placement	935	940	967	1,183	1,444	1,655	1,769	2,003

*Includes denials of extensions of individuals who have been approved for a previous extension in an employment placement.

9. Based upon a review of W-2 placement data since 2007, it would be reasonable to estimate that at least 75% of individuals who time-out on the participation limit would receive an extension in an employment position beyond the lifetime participation limit.

10. In addition to the extensions to paid employment placements shown in Table 1, participants may also qualify for other types of placements, such as paid placements for pregnant women and caretakers of infants, and unpaid case management services for those in unsubsidized

employment or who are capable of obtaining employment.

11. As a result, it is reasonable to conclude that the majority of W-2 participants would not experience a reduction in participation by the proposed 48-month lifetime participation limit.

12. On the other hand, there are many participants who would be impacted by the proposed change. DCF indicates that from 2007 to 2014, between 3.8% and 5.7% of active W-2 participants were in the program between 49 and 60 months.

13. Table 2 shows the W-2 placement distributions for 2014. As shown in Table 2, up to 2,228 paid W-2 placements would have been impacted had the proposed 48-month limit been in effect for 2014.

TABLE 2

2014 Distribution of W-2 Participation

Participation	W-2 Cases*	Percentage	Paid W-2 Cases**	Percentage
0 - 12 Months	19,798	45.2%	17,646	44.5%
13 - 24 Months	9,602	21.9	8,731	22.0
25 - 36 Months	5,823	13.3	5,319	13.4
37 - 48 Months	3,957	9.0	3,631	9.2
49 - 60 Months	2,492	5.7	2,288	5.8
61 + Months	2,145	4.9	2,003	5.1

*Because a participant accumulates additional participation over the course of a year, a total of 9,288 individuals appear in two different participation time ranges.

**Because a participant accumulates additional participation over the course of a year, a total of 8,850 individuals appear in two different participation time ranges.

14. Those qualifying to participate in W-2 have severe financial limitations. The income of a participant's W-2 group may not exceed 115% of the federal poverty level ($23,104 for a family of three in 2015). Further, the participant's W-2 group cannot own assets having more than $2,500 in combined equity value (except for one vehicle and the group's homestead). As a result, W-2 benefits ($653 per month for a full-time CSJ and $608 per month for W2T) represent a large portion of a participating family's resources.

15. Decreasing the lifetime participation limit may, therefore, negatively impact such families' finances and their efforts to obtain and maintain stable employment.

16. Further, as stated above, the 48-month participation limit would apply over a participant's entire lifetime. As a result, the shorter participation limit may have unforeseen impacts on future W-2 participants who attempt to reenter the program.

17. Due to the potential financial impact on a portion of participating W-2 families, the Committee may wish to deny the Governor's recommendation and maintain the current 60-month lifetime participation limit for W-2 and job access loans (Alternative 6). However, if the 60-month

lifetime participation limit were not reduced to 48 months, the W-2 program would not realize the estimated savings of $3 million over the biennium.

18. Alternatively, the Committee could apply the 48-month lifetime limit only to those who apply for W-2 and job access loans after the effective date of the bill (Alternative 2). This would allow all current and past participants to remain subject to the 60-month participation limit. However, there would be no savings from the 48-month lifetime limit in the 2015-17 biennium because there would be no impact on caseloads until 48 months after the bill's effective date.

Extensions for Hardship

19. Under the bill, participants who have more than 48 months of participation in W-2 would remain eligible for certain unpaid case management services. However, without an extension for hardship (or extreme cruelty), they would no longer be eligible for paid employment placements.

20. Current rules allow for extensions based upon unusual circumstances, which by DCF administrative rule includes labor market conditions. However, labor market conditions are not unique to an individual family. Thus, such conditions may be incongruent with the proposed statutory modification to extend W-2 eligibility for hardship instead of for unusual circumstance.

21. DCF indicates that it will change its administrative rules for extending benefits beyond the lifetime limit. DCF intends to make decisions to exempt a family from the W-2 lifetime limit based on the circumstances unique to that family, and not labor market conditions in a region of the state or the state at large. As a result, labor market conditions would no longer be considered in determining whether to grant an extension.

22. A sizable amount of W-2 paid placement extensions are for labor market conditions. For example, in September, 2014, there were 1,406 paid placements granted extensions beyond the 60-month participation limit. Of these cases, 65% (911) were extended due to significant barriers to employment and 35% (495) were extended for local labor market conditions which precluded an opportunity to obtain a job that pays minimum wage and conforms to all applicable federal and state laws.

23. Had the proposed change from unusual circumstance to hardship (and the corresponding changes to DCF's administrative rules) been in effect, the 495 cases extended in September, 2014, for local labor market conditions would not have been extended.

24. The Committee may wish to define hardship in the statutes in order to retain the current policy of extending benefits for local labor market conditions (Alternative 4). It must be noted, however, that the administration's estimation of savings over the biennium ($3.0 million) assumes that the definition of hardship under DCF rules would not include extensions for local labor market conditions. Due to recent caseloads and the relative number of extensions for labor market conditions, it is reasonable to believe that 50% of the estimated savings would be due to the elimination of extensions for labor market conditions. As a result, it may be estimated that $1.5 million of the expected $3 million in savings would not be realized by adoption of this alternative.

25. Alternatively, the Committee may wish to deny the Governor's recommendation to reduce the lifetime participation limit to 48 months and to approve the Governor's recommendation to modify state law to require hardship instead of unusual circumstances for an extension. (Alternative 3). This alternative would maintain the current 60-month lifetime participation limit. However, there would be fewer extensions beyond 60 months of participation because there would not be any extensions for local labor market conditions. Due to recent caseloads and the relative number of extensions for labor market conditions, it is reasonable to believe that only $1.5 million (instead of $3 million) would be saved by the adoption of this alternative.

Transitional Placements

26. The following table shows the services and placements for those persons with more than 60 months of participation, including extensions in CSJ or W2T placements for reasons of "unusual circumstances," case management for those who were denied an extension, and other services (such as paid placements for pregnant women and caretakers of infants, and unpaid case management services for those in unsubsidized employment or who were capable of obtaining employment).

TABLE 3

W-2 Placements and Services for More than 60 Months of Participation*

	2007	2008	2009	2010	2011	2012	2013	2014
Case Management for Denied Extensions	66	55	62	56	135	173	151	159
W2T Extension	802	817	817	916	1,037	1,139	1,259	1,326
CSJ (full-time or part-time) Extension	224	201	250	400	636	785	860	1061
Other	313	283	228	233	292	360	382	624

*A participant may have multiple placements over the course of the year.

27. As shown in the Table 3, W2T placements represent a large proportion of the cases that are extended beyond the lifetime limit of 60 months. DCF indicates that from 2007 to 2014, between 41.8% to 60.1% of the extensions were for W2T placements.

28. DCF also indicates that, from 2007 to 2014, of those individuals having between 49 and 60 months of participation in the W-2 program, between 31.5% to 51.2% were in W2T placements. As a result, individuals in W2T placements are more likely to be affected by reducing the lifetime limit to 48 months than other participants in W-2.

29. As discussed above, the W2T placement is for persons who have barriers to employment which prevent them from participating in a CSJ or unsubsidized employment, such as physical limitations, mental health problems, and cognitive limitations. Therefore, such persons likely have less capacity to adjust to a new 48-month participation limit than participants in other components of the W-2 program would.

30. The Committee could choose to maintain the current 60-month lifetime participation limit for W2T placements and reduce the lifetime limit to 48 months for all other employment placements (Alternative 5). However, by doing so the W-2 program would not realize the full amount of the estimated savings of $3 million over the biennium. Given recent caseloads in the W-2 program, it is reasonable to expect that 60% of the savings would be attributable to the W2T placement.

31. On the other hand, due to the attributes of eligible W2T participants, such persons are also more likely to be extended for hardship. Therefore, the impact on W2T participants from reducing the lifetime limit may be appropriately managed by DCF policies for extending participation for hardship. Further, DCF and W-2 agencies may find it administratively awkward to manage a lifetime participation limit which varies by placement type. As a result, the Committee may find that it is unnecessary and counterproductive to maintain a separate lifetime participation limit solely for W2T placements.

ALTERNATIVES

1. Approve the Governor's recommendation.

2. Modify the Governor's recommendation to limit its effect to those persons who first apply for W-2 benefits after the effective date of the bill. Those participating in W-2 prior to the effective date of the bill would remain subject to the 60-month lifetime limit and to extensions based on unusual circumstance. As a result, no savings would be realized because no participants would be impacted by the changes during the biennium.

ALT 2	Change to Bill
FED	$3,000,0000

3. Approve the Governor's recommendation to change the statutory requirements for extension of the lifetime participation for W-2 and job access loans, but deny the Governor's recommendation to reduce the lifetime participation limit to 48 months. This would require additional TANF funding of $500,000 in 2015-16 and $1,000,000 in 2016-17.

ALT 3	Change to Bill
FED	$1,500,000

4. Approve the Governor's recommendation to reduce the lifetime participation limit to 48 months for W-2 and job access loans, but deny the Governor's recommendation to change the statutory requirements for extensions of participation. This would require additional TANF funding of $500,000 in 2015-16 and $1,000,000 in 2016-17.

ALT 4	Change to Bill
FED	$1,500,0000

5. Modify the Governor's recommendation so that the reduction from 60 months to 48 months of the state lifetime limit for W-2 and job access loans would not apply to W2T placements. This would require additional TANF funding of $600,000 in 2015-16 and $1,200,000 in 2016-17.

ALT 5	Change to Bill
FED	$1,800,000

6. Delete provision.

ALT 6	Change to Bill
FED	$3,000,0000

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May 14, 2015 Joint Committee on Finance Paper #212

W-2 Sanctions
(Children and Families -- Economic Support and Child Care)

[LFB 2015-17 Budget Summary: Page 101, #4]

CURRENT LAW

The Department of Children and Families (DCF) administers Wisconsin Works (W-2), a work-based program that provides training and support services to assist low-income parents obtain permanent and stable employment. In order to be eligible for a W-2 employment position for any month, an individual must meet certain nonfinancial and financial eligibility requirements.

Community service jobs (CSJ) are intended for participants who are not ready for unsubsidized employment. The CSJ placement provides work experience and training to develop the skills necessary to succeed in a normal job environment. In addition to placement with public, private, or nonprofit worksites, a CSJ may also include education and training. A full-time CSJ placement provides a monthly payment of $653.

W-2 transitional placements are meant for individuals who are unable to perform independent, self-sustaining work due to barriers to employment, such as alcohol and drug abuse, medical or physical problems, and learning disabilities. Participants may be assigned to work activities such as a community rehabilitation program or a job similar to a community service job or a volunteer activity. A transitional placement may also include education and training activities, drug treatment programs, and other mental and physical rehabilitation activities. A transitional placement provides a monthly payment of $608.

Sanctions may be imposed upon participants for refusal to participate in an employment position, not cooperating with child support requirements, intentional program violations, and for failing a drug test. Payments are reduced by $5.00 per hour for hours missed without good cause for participants who fail to participate in assigned activities for a CSJ and W-2 transitional job. If a W-2 participant (or individual in a participant's W-2 group) refuses to participate in a W-2 employment position component, the participant is ineligible to participate in the entire W-2 program for three months. If a participant (or individual in a participant's W-2 group) refuses without good cause to participate in a W-2 component three times, that participant is ineligible to further participate in that component.

Before taking any action against a W-2 participant that would result in a 20% or more reduction in the participant's benefits or in termination of the participant's eligibility to participate in W-2, a W-2 agency must: (a) provide written notice of the proposed action and of the reasons for the proposed action to the W-2 participant; and (b) allow the W-2 participant reasonable time to rectify the deficiency, failure, or other behavior to avoid the proposed action.

GOVERNOR

Remove the notice and rectification requirements for W-2 sanctions. W-2 participants would no longer receive notice and an opportunity to rectify prior to being sanctioned.

DISCUSSION POINTS

Good Cause Policy

1. The good cause policy in the W-2 Manual is meant to model what an employer would allow under its own absence policy. The good cause policy requires a participant to notify the agency of the reason for missing an assigned W-2 activity within seven working days of the non-participation.

2. If the participant fails to provide good cause, payment reductions will apply. The participant will receive a payment statement explaining the deduction. The payment statement also provides information on the W-2 dispute resolution process and includes language providing the participant the opportunity to disclose potential barriers to participation.

3. According to DCF, W-2 participants usually do not rectify nonparticipation or termination of eligibility.

4. If the sanction would reduce the participant's benefits by 20% or more, current law requires the W-2 agency to provide written notice of the proposed action and the reasons for the proposed action. The participant is then provided with an additional reasonable period of time (seven working days after the date the notice was mailed) within which to provide a good cause reason for the non-participation.

5. If good cause is provided, the W-2 agency will not apply the payment reduction. In those cases where payment is provided prior to resolution of the sanction, the W-2 agency must provide an auxiliary payment for the payment reduction.

6. DCF indicates that the good cause policy is undermined by allowing an additional

statutory opportunity to rectify. The good cause policy is meant to mirror the employer absentee policies which participants would face in the marketplace.

7. In cases of termination of benefits, current law requires notice and an opportunity to rectify prior to loss of benefits regardless of the reason for the termination. As a result, benefits may continue in many instances even where it would be impossible to cure the deficiency (such as where a participant becomes ineligible to participate by moving out of state, by receiving Supplemental Security Income benefits, or by the participant's youngest child reaching the age of 18).

8. Eliminating the statutory notice and cure provisions would reduce the over issuance of W-2 benefits in cases where it would be impossible to rectify the deficiency.

Federal Work Participation Rate

9. Federal law requires that a work-eligible individual engage in work once the state determines that the individual is ready, or after 24 months of receiving assistance under the federal temporary assistance to needy families (TANF) program, whichever is earlier.

10. Generally, in order to meet the work requirement a participant must engage in work activity for an average of at least 30 hours a week. For a single-parent family with a child under the age of six, the participant must engage in work activities for 20 hours. Two-parent families, whose hours are combined for purposes of the work participation rate, are required to work: 35 hours a week, if not receiving federally funded child care, and 55 hours a week if receiving federally funded child care. States do not get partial credit for participants who work, but do not work enough hours to reach the minimum requirements.

11. Federal law requires states to achieve two minimum work participation rates: an overall rate and a two-parent rate. The overall work participation rate requires that 50% of all families receiving TANF assistance participate in work activities during the fiscal year. The two-parent work participation rate requires that 90% of two-parent families receiving TANF assistance during the fiscal year participate in work activities.

12. Failure to comply with the minimum participation requirements may result in a penalty which reduces the TANF block grant by 5% to 21%, depending on how many years the state fails to meet the requirements and the degree of non-compliance.

13. States that successfully meet their work participation requirements receive a reduction in the amount of state funding required under federal law that must be contributed for TANF-related programs. This is referred to as the maintenance-of-effort (MOE) requirement.

14. States may receive credit towards the required work participation rate. The state's target work participation rates may be reduced based on caseload reductions that have occurred since 2005 for reasons other than changes in program eligibility rules. States are also allowed to receive caseload reduction credits for excess MOE spending (the excess MOE caseload credit is calculated by dividing total annual excess MOE spending on assistance by the average monthly expenditures for assistance per case for the fiscal year).

15. According to DCF, the state did not reach the target work participation rates in federal fiscal years 2012 and 2013. The target for all families was 50%, but the actual rate was 32% and 34% respectively. The target for two-parent families was 90%, but the actual rate was 17% and 26% respectively.

16. The state did not receive any credits towards the federally required work participation rates in federal fiscal years 2012 through 2015. This is because the TANF caseload increased over the time period and because excess MOE spending has not large enough to result in a caseload adjustment which would result in a credit.

17. As of the time of this writing, the federal Department of Health and Human Services (DHHS) has not notified DCF about failing to meet work participation compliance for federal fiscal years 2012 and 2013 and no penalty amount has been determined.

18. Before any penalties are imposed, the state has the opportunity to claim reasonable cause to forgive the penalty. Further, the state may avoid the penalty by achieving compliance under a corrective compliance plan approved by the federal government.

19. During the above discussed statutorily required notice and rectification time period for imposing sanctions and for appeals of such sanctions, ineligible individuals continue to be counted for the purposes of calculating the work participation rate.

20. The administration believes that streamlining the processes for imposing sanctions would reduce non-participation in W-2 work activities. Furthermore, ineligible cases would be removed from the statistics used to calculate the federal work participation rate. As a result, the state's work participation rate would improve.

21. However, streamlined sanctions, alone, would not suffice to meet the federal work participation requirements. Even if all ineligible individuals had been timely removed from the work participation rate calculation, the state's performance would have been significantly below the federal work participation targets in 2012 and 2013.

22. For example, DCF indicates that approximately 39% of W-2 participants fail to meet the work participation requirements each month because they are either not assigned sufficient hours of countable work activities or are assigned activities which may only be counted for a limited period of time. Further, participants in W-2 transitional placements are less likely than other participants to meet TANF work participation requirements due to barriers to employment (such as a mental disability). The proposed statutory changes to notice and rectification would have no effect on such issues.

Procedural Protections

23. Those qualifying to participate in W-2 have severe financial limitations. The income of a participant's W-2 group may not exceed 115% of the federal poverty level ($23,104 for a family of three in 2015). Further, the participant's W-2 group cannot own assets having more than $2,500 in combined equity value (except for one vehicle and the group's homestead).

24. As a result, W-2 benefits ($653 per month for CSJ and $608 per month for a W-2 transitional job) represent a large portion of a participating family's resources. Similarly, sanctions of 20% or more on such benefits represent a large loss of income for such families. Improper sanctions on participating W-2 families could inflict financial harm without warning.

25. The statutory notice and rectification requirement enables participants the opportunity to rectify a penalty before it is applied. If such requirements are repealed, the good cause policy would not provide notice prior to sanctioning a participant.

26. Without procedural protections, some families could be sanctioned simply due to employment barriers or in cases where participants are unaware that they have the opportunity to provide good cause for their nonparticipation. Further, W-2 agency mistakes could lead to unnecessary sanctions without advance notice.

27. The statutory change would have a wide impact on the W-2 program. DCF indicates that of the total number of participant months in the types of W-2 placements that could possibly be sanctioned during 2012-13 (172,707), approximately 17.4% of the W-2 participant months (30,096) had a sanction of 20% or more. More than 20.6% (36,822) of W-2 participant months in 2011-12 and 18.1% (29,307) in 2010-11 had a sanction of 20% or more.

28. The W-2 Sanctions Study conducted by the Department of Workforce Development in 2004 found that approximately one-third of sanctions which had been administratively appealed were reversed. Although dated, the report suggests that many sanctions could be imposed in error or using incomplete information.

ALTERNATIVES

1. Approve the Governor's recommendation.

2. Modify the Governor's recommendation such that statutorily required notice and opportunity to rectify would not be required for actions predicated upon W-2 financial and non-financial eligibility criteria (such as a child becoming 18 years old or the participant moving out of the state). Actions predicated on sanctions which would terminate a participant's eligibility or reduce a participant's benefits by 20% or more (such as non-participation in an employment position or non-cooperation with child support requirements) would require notice and opportunity to rectify.

3. Delete provision.

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May 14, 2015 Joint Committee on Finance Paper #213

Work Program Wage Subsidies
(Children and Families -- Economic Support and Child Care)

[LFB 2015-17 Budget Summary: Page 104, #6]

CURRENT LAW

Current law requires the Department of Children and Families (DCF) to implement three programs in which businesses that employ eligible low-income individuals are paid wage subsidies and other costs attributable to the employment of an individual (such as social security, Medicare, and unemployment taxes). These programs are the trial employment match program (TEMP), Transform Milwaukee, and the Transitional Jobs program.

The TEMP program is one of the placement options under the Wisconsin Works (W-2) program, which primarily serves low-income custodial parents. Transform Milwaukee serves individuals with who reside in certain areas of Milwaukee. In contrast to W-2, the Transform Milwaukee program is available to childless individuals, and the income limit is higher. The Transitional Jobs program is similar to Transform Milwaukee, but may be implemented in other areas of the state.

As of February, 2015, there were 725 participants in Transform Milwaukee. As of this writing, DCF has not begun implementation of the TEMP placement option or the Transitional Jobs program.

The statutes regarding each of these programs require the employer to pay the participant at least minimum wage for each hour worked. For TEMP, the employer must be paid a wage subsidy in an amount negotiated with the local W-2 agency, but the hourly subsidy may not be less than the applicable minimum wage. Current law does not allow for negotiation of the wage subsidy in the Transform Milwaukee and Transitional Jobs programs. Instead, DCF pays the employer an amount equal to the wages paid to the individual for hours actually worked, not to exceed 40 hours per week at minimum wage.

GOVERNOR

The bill would change the TEMP wage subsidy amount paid to employers from being not less than minimum wage to being no more than minimum wage.

The bill would change the Transform Milwaukee the Transitional Jobs programs such that the subsidy amount would be negotiated between DCF and the employer. Instead of requiring the subsidy to be equal to the minimum wage, the subsidy could not exceed the minimum wage.

DISCUSSION POINTS

1. According to the administration, allowing agencies to negotiate subsidies less than minimum wage would reduce the waste associated with providing subsidies which are higher than required in order to induce an employer to engage a participant.

2. The administration contends that the subsidy amounts used in TEMP, Transform Milwaukee, and Transitional Jobs should reflect the participant's skills and experience. According to the administration, higher skilled participants with fewer barriers to employment should not require as high a subsidy as low skilled participants in order for an employer to be willing to employ them on a trial basis.

3. The administration also contends that the subsidy amounts used in TEMP, Transform Milwaukee, and Transitional Jobs should reflect the labor market. In times of low unemployment and in geographic areas where the labor market is tight, employers may not need as large an incentive to hire a participant as they do when there are large numbers of highly qualified individuals competing for a small number of vacancies (such as the conditions experienced during a recession).

4. The administration also states that the bill would continue to provide sufficient flexibility for negotiating higher subsidies when participants are further from meeting employer requirements.

5. However, there are potentially several drawbacks to placing a statutory minimum wage ceiling on wage subsidies for the TEMP, Transform Milwaukee, and Transitional Jobs programs.

6. First, a statutory ceiling would restrict the ability to provide higher subsidies during times of recessions when higher subsidies may be needed to induce employers to engage applicants with barriers to employment (such as lacking previous work experience, offenders reentering the labor force, or those lacking basic and employability skills).

7. Second, a minimum wage ceiling may exclude certain employers and categories of employment positions from participating in the program due to the low amount of the subsidy available. Without the availability of higher subsidy amounts, the TEMP, Transform Milwaukee,

and Transitional Jobs programs could effectively be limited to minimum wage employment positions.

8. Third, recent history with similar programs suggests that placing a minimum wage ceiling upon the subsidy amount may undermine efforts to attract employers to participate in the TEMP, Transform Milwaukee, and Transitional Jobs programs. The state has administered other subsidized employment programs in the past that have struggled to attract sufficient participation by employers. For example, the trial jobs program, which was similar to TEMP and utilized a $300 monthly subsidy cap, averaged only 13 placements a month in 2012 and five placements a month in 2013.

9. Fourth, due to inflation, the value of the statutory ceiling will continue to fall over time unless the minimum wage is raised. This may further restrict the ability of the programs to find employers willing to hire participants.

10. Finally, due to geographical differences in the labor market across the state, the minimum wage ceiling could restrict the ability of the programs to expand. Different areas of the state experience higher costs and weaker labor markets than others. As a result, the minimum wage ceiling may have a different impact in those areas and negatively impact the functioning of the programs.

11. The Committee may wish to modify the bill to remove the statutory minimum wage ceiling on the subsidies for the TEMP, Transform Milwaukee, and Transitional Jobs programs. This would allow DCF and W-2 agencies the discretion to negotiate subsidies in any amount needed.

ALTERNATIVES

1. Approve the Governor's recommendation.

2. Modify the Governor's recommendation to eliminate the reference to the minimum wage and instead grant W-2 agencies (in the case of TEMP) and DCF (in the case of the Transform Milwaukee and Transitional Jobs programs) discretion to negotiate the amount of the wage subsidy.

3. Delete provision.

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May 14, 2015 | Joint Committee on Finance | Paper #214

State Administration of Wisconsin Works and Other TANF-Related Programs (Children and Families -- Economic Support and Child Care)

[LFB 2015-17 Budget Summary: Page 109, #15]

CURRENT LAW

Client Assistance for Reemployment and Economic Support System

Wisconsin Works (W-2) is administered at the local level by private agencies that enter into contracts with the Department of Children and Families (DCF). Applicant data is stored in the client assistance for reemployment and economic support (CARES) system. CARES is the state's information system that supports public assistance programs, including W-2, FoodShare, child care, medical assistance, and the caretaker supplement. Both DCF and the Department of Health Services (DHS) utilize the CARES computer system for their various programs. Each agency is allocated its share of the CARES costs.

Income Eligibility and Verification System

The Social Security Act and regulations under the federal temporary assistance for needy families (TANF) program require W-2 agencies to verify the reasonableness of wage and other information provided by persons applying for W-2 and child care through the income eligibility and verification system (IEVS). IEVS is an automated computer system mandated by federal law that is used to match information among government databases.

DCF uses CARES to verify the accuracy of financial information provided by applicants for use in making eligibility determinations for federally funded assistance programs. DCF investigates whether applicants receive benefits they are not entitled to receive. Information verified using IEVS includes social security numbers and supplemental security income payments from the U.S. Social Security Administration, state wage and unemployment compensation information collected by the Department of Workforce Development (DWD), unearned income from the Internal Revenue Service (IRS), and immigration status from the Immigration and Naturalization Service. A discrepancy in such data may result in the loss of financial eligibility under W-2, a claim for overpayment, or both.

W-2 agencies are required to investigate and reconcile discrepant information and record all findings and benefit savings in CARES. With the exception of state wage and unemployment compensation information, IEVS data matches are automatically updated in CARES. For state wage and unemployment compensation information, W-2 agencies must use CARES to review case information and identify data matches, determine if further verification is required, and update the system with any new information or actions taken in response to the IEVS match (such as a reduction in benefits).

Federal regulations require states to verify and reconcile discrepancies on the IEVS match reports within 45 days. If action cannot be completed within 45 days due to the non-receipt of third-party verification, then action on such discrepancies (but no more than 20% of the overall total) may be delayed beyond the 45 days and up to 90 days in total. States may be penalized under the Social Security Act and TANF regulations for not timely performing IEVS matching.

Work Participation Rates

Federal law requires that work-eligible TANF recipients engage in work once the state determines that the individual is ready, or after 24 months of receiving assistance, whichever is earlier. States are required to achieve two minimum work participation rates: an overall rate and a two-parent rate. The overall work participation rate requires that 50% of all families receiving TANF assistance participate in work activities during the fiscal year. The two-parent work participation rate requires that 90% of two-parent families receiving TANF assistance during the fiscal year participate in work activities.

Failure to comply with the one or both minimum work participation rates may result in a penalty which reduces the TANF block grant by 5% to 21%, depending on how many years the state fails to meet the requirements and the degree of non-compliance. The state did not reach the target work participation rates in federal fiscal years (FFY) 2012 and 2013. As a result, the state may be subject to penalties in the future (federal regulators have not yet reviewed the state's performance for FFY 2012 and 2013). Before any penalties are imposed, the state has the opportunity to claim reasonable cause and have the penalty forgiven. Further, the state may avoid a penalty by achieving compliance under a corrective compliance plan approved by the federal government.

GOVERNOR

Provide $1,835,000 FED in 2015-16 and $1,896,100 FED in 2016-17 in TANF funds for modernization of the work programs subsystem within the CARES information technology system. Such upgrades would improve efficiency and case management practices in the W-2 program.

State administration of TANF-related programs (other than Wisconsin Shares) under the bill would total $14,834,100 in 2015-16 and $14,967,700 in 2016-17.

DISCUSSION POINTS

CARES Upgrade

1. The CARES work programs subsystem was developed in the early 1990s, before the aid to families with dependent children (AFDC) program was replaced by the TANF block grant. The work programs subsystem was designed for the job opportunities and basic skills (JOBS) program, which was a state-administered employment and training program for parents receiving AFDC. This subsystem was later updated to comply with state and federal work requirements for TANF.

2. The CARES work programs subsystem currently operates with COBOL-based mainframe technology that is inefficient, hard to maintain, and more difficult to use than other CARES programs that have been modernized to a web-based, service-oriented technology and architecture. The work programs subsystem uses "black screens" requiring text commands to navigate from screen to screen, as well as the manual entry of information. DCF indicates that with the mainframe, response time is slow and inefficient, reducing staff productivity and impacting the quality of interactions between participants and case managers.

3. DCF indicates that the process to gather and record assessment information needs to be better in order to improve how W-2 case management decisions are made and to provide the data needed to guide future decisions about program design.

4. All other CARES programs have converted to a web-based technology, such as YoungStar and child care statewide administration in DCF and all programs administered by DHS. According to DCF, this web-based technology is more efficient and easier to use, especially for younger staff who are not familiar with the COBOL-based mainframe.

5. Because other programs and departments have already migrated to web-based systems, more and more of the CARES costs will be shouldered by DCF's W-2 program. Older mainframe systems run the risk of higher maintenance costs due to shortages of programmers with the necessary programming skill sets. Thus, upgrading to a web-based system could potentially lower future costs associated with maintenance and mainframe costs.

6. Furthermore, DCF indicates that modernizing CARES system could also assist efforts to improve the work participation rates in the W-2 program. Improvements in data tracking could assist in managing the TANF caseload and identify problems which contribute to low participation rates.

7. However, DCF indicates that the CARES system does not meet the federal standards for tracking individuals' work participation and cannot account for the complexity of the different types of time limits and policies in state and federal law. The existing automated employment and

benefit system cannot support the program advancements that are needed without significant modernization.

8. Because the CARES upgrade could reduce long-term maintenance costs, improve staff efficiency, and assist efforts to comply with federal work participation requirements, the Committee could decide to approve the Governor's recommendation (Alternative 1). DCF indicates that it would work with staff from Department of Administration's Bureau of Information Technology Services (BITS) to determine whether the CARES upgrade would utilize state staff, contracted staff, or a combination of both.

9. On the other hand, DCF indicates that the existing mainframe work programs subsystem continues to function and would operate through the next biennium. Therefore, the Committee could decide that it is not necessary to provide funding to upgrade CARES (Alternative 3). All costs of the CARES upgrade would be avoided during the biennium. Alternatively, the Committee could choose to delay the CARES upgrade by one year, thereby reducing expenditures in the current biennium (Alternative 2).

IEVS Penalties

10. The Legislative Audit Bureau determined in its 2004 single audit report that Wisconsin failed to meet IEVS requirements for the TANF program. DWD, which administered TANF at the time, was notified that the state was subject to a one-time penalty which would reduce available funding under the TANF block grant by $4,730,300.

11. After the state's dispute of the penalty was denied, Wisconsin submitted an approved corrective compliance plan under which no penalty would be imposed if Wisconsin corrected the IEVS violation on or before September 30, 2007.

12. Despite the corrective compliance plan, the Legislative Audit Bureau's 2009 single audit report identified that Wisconsin was not properly conducting IEVS data matching of unearned income with the IRS. Further, counties and W-2 agencies did not timely resolve discrepancies identified by data matches of wage information and unemployment insurance from DWD. As a result, the penalty was imposed on the TANF block grant for federal fiscal year 2015.

13. An additional penalty of $4,763,000 may be imposed unless the state complies with a new, approved corrective action plan on or before April 30, 2016.

14. As part of the corrective compliance plan, DCF plans to correct data matching issues. The plan also calls for DCF to utilize additional staff to follow up with discrepancies identified by data matching.

15. According to the administration, DCF may reallocate positions within current staffing levels to perform the necessary tasks under the corrective compliance plan. The Committee could therefore decide to approve the Governor's recommendation without providing additional funding for increased staffing (Alternative 4).

16. However, additional positions to implement the corrective compliance plan could help avoid additional IEVS penalties. In its agency request, DCF requested funding of $246,100 in 2015-16 and $328,100 in 2016-17 to support 4.0 positions to implement the IEVS corrective action plan. In its first quarter 2015 report to the Committee on the IEVS corrective compliance plan, DCF indicated that denial of these positions will require DCF to modify the corrective compliance plan for resolving discrepancies in unemployment compensation and state wage information. DCF stated in its report that it is now reviewing other options that could lead to compliance by December, 2016.

17. The Committee could provide additional funding for 4.0 positions to implement the IEVS corrective action plan (Alternative 5).

ALTERNATIVES

A. CARES Upgrade

1. Approve the Governor's recommendation.

2. Modify the Governor's recommendation for funding to upgrade the CARES system by delaying implementation of the project until 2016-17.

ALT 2	Change to Bill
FED	- $1,896,100

3. Deny the Governor's recommendation for funding to upgrade the CARES system.

ALT 3	Change to Bill
FED	- $3,731,100

B. IEVS

4. Approve the Governor's recommendation. No additional staffing would be provided to implement the IEVS corrective compliance plan.

5. Modify the Governor's recommendation to provide 4.0 positions and $246,100 in 2015-16 and $328,100 in 2016-17 to assist in implementing the IEVS corrective compliance plan.

ALT 5	Change to Bill	
	Funding	Positions
FED	$574,200	4.00

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May 14, 2015 Joint Committee on Finance Paper #215

TANF Funding for the Earned Income Tax Credit (Children and Families -- Economic Support and Child Care)

[LFB 2015-17 Budget Summary: Page 97, #1; and Page 173, #1]

CURRENT LAW

Under current law, funds from the federal temporary assistance for needy families (TANF) block grant and child care development block grant (CCDBG) are used for a variety of programs to assist low-income families.

The earned income tax credit (EITC) is offered at both the federal and state levels as a means of providing assistance to lower-income workers. The credit provides a supplement to the wages and self-employment income of such families and is intended to offset the impact of the social security tax and other taxes and increase the incentive to work. Both the federal and Wisconsin credit are refundable so individuals with little or no income tax liability may still receive the credit.

The state EITC is currently paid from two sources: (a) a sum sufficient GPR appropriation; and (b) the federal TANF block grant. Under federal law, TANF funds may be used to support a portion of the cost of the EITC. According to federal TANF regulations, TANF funds may be used to cover the share of the EITC that is refunded to the claimant (rather than used to reduce the claimant's income tax liability). Base TANF funding for the EITC is $62,500,000 annually.

GOVERNOR

Total funding for the EITC under the bill would decrease to $106,280,000 in 2015-16 and increase to $109,030,000, compared to base funding of $106,600,000. Base level GPR funding of $44,100,000 would decrease to $43,780,000 in 2015-16 and increase to $46,530,000 in 2016-17. TANF funding of $62.5 million would be provided in each year.

DISCUSSION POINTS

1. Under federal law, the refundable portion of a state's EITC is an allowable TANF expenditure. The refundable portion is the amount that exceeds a family's state income tax liability prior to application of the EITC. As a result, federal TANF funding may be substituted for GPR funding for the EITC (and vice versa). Based on federal requirements and on past experience with refundable credits, and allowing for amounts paid to legal immigrants (which TANF funds may not be used for), the portion of EITC costs that can be paid with TANF funds is approximately 65%.

2. Since 2003-04, the amount of TANF funding used for the EITC has ranged from \$6.7 million (6.8%) in 2008-09 to the current level of \$62.5 million (60.2% in 2013-14). The amount of TANF budgeted for the EITC has varied depending upon the availability of excess TANF funding and Legislative priorities for its use.

3. As will be discussed in a subsequent issue paper, based upon more recent tax collections data, the reestimated funding for the EITC is \$104,000,000 in 2015-16 and \$107,300,000 in 2016-17.

4. As discussed in a separate paper, Wisconsin Works (W-2) and TANF-related programs show an estimated balance of \$45.5 million at the end of the 2015-17 biennium, but an annual structural deficit of \$57.6 million going into the 2017-19 biennium. Projected over the 2017-19 biennium, the structural deficit would be \$115.2 million. As a result, the estimated TANF closing balance of \$45.5 million likely would not be sufficient to cover TANF-related expenditures in the 2017-19 biennium without reductions in program spending.

5. In order to partially address this structural deficit or provide additional funding for other TANF programs in the 2015-17 biennium, the Committee may wish to reduce the level of TANF funding for the EITC (Alternative 2). Additional GPR, in the same amount by which the level of TANF funding for the EITC is reduced, would be needed to fully fund the EITC.

6. Alternatively, the Committee may decide that the estimated closing TANF balance of \$45.5 million is more than sufficient to fund TANF-related programs during the 2015-17 biennium. The Committee may therefore wish to increase the level of TANF funding for the EITC and make available additional GPR for other programs (Alternative 3). For example, additional GPR could be used to address the increase in projected aids expenditures by the Bureau of Milwaukee Child Welfare, which is discussed in LFB Issue Paper #202.

7. Assuming 65% of the EITC could be supported with TANF funding, the maximum level of TANF that could fund the EITC is approximately \$67.6 million in 2015-16 and \$69.7 million in 2016-17. Compared to the bill, up to \$12.3 million in additional TANF funding could be provided for the EITC over the 2015-17 biennium.

8. It must be noted, however, that any additional increases in TANF funding for the EITC would exacerbate the problems associated with the structural TANF deficit, as discussed above. Further, the closing balance may be needed to cover shortfalls and unexpected expenses in TANF-related programs in the 2015-17 biennium. For example, DCF indicates that recent changes in

federal law from the reauthorization of the CCDBG may require the state to incur additional costs in child care administration in order to comply with updated federal regulations. The bill does not include funding for such costs, which DCF expects will exceed $10 million. Also, as discussed in other papers, the state may face penalties from the federal government for failing to meet work participation targets in the W-2 program. Such penalties could exceed 5% of the funding from the TANF block grant ($15.7 million). For these reasons, the Committee may wish to approve the Governor's recommended level of TANF funding for the EITC (Alternative 1).

ALTERNATIVES

1. Approve the Governor's proposed level of TANF funding for the EITC ($62.5 million annually).

2. Modify the Governor's proposed level of TANF funding for the EITC to provide a lower level chosen by the Committee in order to increase the TANF ending balance going into the next biennium and address the projected TANF structural deficit. TANF funding would be reduced by this amount, and GPR funding would increase by a corresponding amount.

3. Modify the Governor's proposed level of TANF funding for the EITC to provide a higher level chosen by the Committee up to an overall maximum amount of $12,300,000 compared to the bill. Any increase in TANF funding would be offset by a corresponding reduction in GPR. The following options show examples of the total TANF funding that could be provided in the 2015-17 biennium. The Committee has the option providing TANF funding in one of or both years up to the total amounts shown below.

ALT 3		**Change to Bill**	
	GPR	FED	Total
a.	- $2,000,000	$2,000,000	$0
b.	-6,000,000	6,000,000	0
c.	-12,300,000	12,300,000	0

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CHILDREN AND FAMILIES

Economic Support and Child Care

LFB Summary Items for Which No Issue Paper Has Been Prepared

Item #	Title
5	W-2 Community Steering Committees
7	Expansion of Learnfare
8	Transitional Jobs Expansion
11	Child Care Quality Rating and Improvement System
12	Kinship Care
13	Caretaker Supplement
14	Emergency Assistance
16	Grants to Boys and Girls Clubs of America
17	Fostering Futures: Connections Count
18	Transfer to Social Services Block Grant
19	Child Welfare Safety Services
20	Child Welfare Prevention Services

LFB Summary Item Addressed in a Separate Paper

Item #	Title
3	Work Experience Program Drug Testing and Treatment