9

69. For audit findings, it would be difficult to define what would constitute a single "failure" and it would also be difficult to determine whether an agency is at fault or not. An alternative would be to require penalties to be levied for unallowable costs, without regard to determination of fault. (Alternative 10.) The penalty amount could be set at a percentage of the disallowed costs. If a 100% penalty had been in place for the 1997-1999 W-2 contracts, Maximus would have paid $380,575 and Employment Solutions would have paid $306,167. (Alternative 11)

Future Audit Requirements

70. Under current law, the Legislative Audit Bureau was required to file a financial and performance audit on the W-2 program by July 1, 2000. The Audit Bureau conducted several audits, the last of which was released in April, 2001. Through these audits, the Audit Bureau found that some W-2 agencies had unallowable and questioned costs associated with the 1997-1999 W-2 contracts. The final audit released in April, 2001, also provided extensive data on how funds were being used and on the wages of past participants. Since the Audit Bureau has completed its statutory obligation and continued monitoring of W-2 is important to determining the success of the program, the statutory provisions could be modified to require the Legislative Audit Bureau to conduct biennial program and financial audits on the W-2 and child care programs. If the Committee adopts this alternative, the Legislative Audit Bureau could be authorized to charge DWD for all or a portion of the costs of performing these audits. (Alternative 12)

ALTERNATIVES TO BILL

Case Credits for Performance Standards

1. Direct DWD to modify its contract terms for the 2002-2003 W-2 contracts to allow agencies to receive a one-case credit only to meet the base contract and right of first selection benchmark, and not to receive the community reinvestment bonus or the unrestricted bonus.

2. Direct DWD to modify its contract terms for the 2002-2003 W-2 contracts to eliminate the proposed zero-case credit.

Performance Standards

3. Direct DWD to amend its contract terms for the 2002-2003 W-2 contracts to make one or more of the following changes to the performance standards:

Entered Employment Standard

a. For the entered employment standard, increase the base contract and right of first selection benchmark from 35% to 50%.

b. For the entered employment standard, increase the community reinvestment benchmark from 35% to 40% and increase the unrestricted bonus benchmark from 40% to 45%.

Earnings Gain Standard

c. For the earnings gain standard, increase the community reinvestment benchmark from 50% with earning gains of $50 or more, to 50% with earning gains of $100 or more. Increase the unrestricted bonus benchmark from 50% with earning gains of $100 or more, to 50% with earning gains of $200 or more.

d. Add FSET participants to the earnings gain standard.

Wage Rate Standard

e. Convert the standard that measures initial wage rate at placement from an informational standard to a mandatory standard. Set the base contract and right of first selection benchmark wage rate for each W-2 region at the average wage rate in each county during the first six months of 2001. Make the community reinvestment benchmark 102.5% of the average base wage rate and make the unrestricted bonus benchmark 105% of the average base wage rate.

Job Retention Standard

f. For the job retention standard, increase the base contract and right of first selection benchmark for 30-day follow-up from 75% to 85%, increase the community reinvestment benchmark from 80% to 90% and increase the unrestricted bonus benchmark from 85% to 95%.

g. For the job retention standard, increase the base contract and right of first selection benchmark for 180-day follow-up from 50% to 65%, increase the community reinvestment benchmark from 55% to 70% and increase the unrestricted bonus benchmark from 60% to 75%.

h. Modify the job retention standard to also measure job retention after 360 days as an informational standard.

Full and Appropriate Engagement Standard

i. For the full and appropriate engagement standard, increase the base contract and right of first selection benchmark from 80% to 90%, increase the community reinvestment benchmark from 85% to 95% and increase the unrestricted bonus benchmark from 90% to 100%.

Basic Education Activities Standard

j. For the basic education activities standard, increase the base contract and right of first selection benchmark from 80% to 90%, increase the community reinvestment benchmark from 85% to 95% and increase the unrestricted bonus benchmark from 90% to 100%.

k. Add FSET participants to the basic education activities standard.

Educational Attainment Standard

L. For the educational activities attainment standard, increase the base contract and right of first selection benchmark from 35% to 40%, increase the community reinvestment benchmark from 40% to 45% and increase the unrestricted bonus benchmark from 45% to 50%.

m. Add FSET participants to the educational attainment standard.

Staff Training Standard

n. Modify the W-2 agency staff training standard to require 100% of staff to be trained as a base contract and right of first selection requirement. Eliminate the use of this standard in determining community reinvestment funds and unrestricted bonus funds.

W-2 Tier Placement Standard

o. Modify the appropriate W-2 tier placement standard to require appropriate placement of 100% of participants as a base contract and right of first selection requirement. Eliminate the use of this standard in determining community reinvestment funds and unrestricted bonus funds.

Extension Requests Standard

p. Modify the extension requests standard to require timely processing and CARES documentation of requests as a base contract and right of first selection requirement. Eliminate the use of this standard in determining community reinvestment funds and unrestricted bonus funds.

Customer Satisfaction Standard

q. Modify the customer satisfaction standard to distribute unrestricted bonus funds to all agencies that have an average score exceeding 6.5 on each survey item, instead of providing unrestricted bonuses only to the top-10 scoring agencies.

Financial Management Standard

r. Modify the financial management standard to require "significant audit finding" to include an audit finding of unallowable or questioned costs of more than $25,000 per contract.

s. Modify the financial management standard to require "significant audit finding" to include an audit finding of unallowable or questioned costs of a certain percentage of the contract amount.

t. Modify the financial management standard to require "significant audit finding" to include an audit finding of unallowable costs of more than $25,000 per contract and/or questioned costs of $50,000 or more per contract.

Optional Standards

u. Eliminate faith-based contracts as an optional performance standard.

v. Eliminate SSI advocacy as an optional performance standard.

w. Convert the employer health insurance standard from an optional standard to a required standard and increase the base contract and right of first selection benchmark from 30% to 55%, increase the community reinvestment benchmark from 35% to 60% and increase the unrestricted bonus benchmark from 40% to 65%.

4. Modify the statutes to define full-time employment for the purposes of performance bonuses as working in one or more jobs for a total of 30 hours or more per week.

Weighting of Performance Criteria

5. Direct DWD to modify its contract terms for the 2002-2003 W-2 contracts to place greater emphasis on indicators that help participants move toward self-sufficiency. Percentages of funds allocated to specific standards would depend on which indicators the Committee recommends be implemented.

Right of First Selection

6. Modify the statutes to remove the right of first selection process, effective for the 2004-2005 contracting process. Direct DWD to remove the provisions for the right of first selection process for the 2004-2005 W-2 contracts from the 2002-2003 W-2 contracts. This would require DWD to award all future contracts on a competitive basis.

7. Modify the statutes to require DWD to utilize a competitive process to select W-2 agencies starting with the 2004-2005 contracting process, unless it opts to re-contract with agencies based on standards developed by the Department. Direct DWD to modify its contract terms for the 2002-2003 W-2 contracts to reflect this policy change for the 2004-2005 contracts. This would provide DWD with the flexibility to utilize either a competitive process or right of first selection process.

Geographic Regions

8. Modify the statutes to specify that right of first selection would not apply for the 2004-2005 W-2 contracts in cases where the geographic area had been changed, effective for the 2004-2005 contracts. Direct DWD to amend the contract terms for the 2002-2003 contracts to state that the right of first selection will not apply for the 2004-2005 contracts in cases where the geographic area has been changed.

9. Modify the statutes to remove the statutory provision allowing Milwaukee County to be divided into more than one region, effective for the 2004-2005 W-2 contracts. This option would

be used if the Committee would like to consolidate Milwaukee County into one region.

Financial Accountability

10. Direct DWD to modify its contract terms to require that failure penalties be charged to W-2 agencies that have any audit findings of unallowable costs, without regard to a finding that the agency was at fault.

11. Direct DWD to modify its contract terms for the 2002-2003 W-2 contracts to specify that penalties for unallowable expenditures would be:

a. 20% of the unallowable amount.

b. 50% of the unallowable amount.

c. 100% of the unallowable amount.

c. Some other percentage of the unallowable amount.

Future Audit Requirements

12. Modify the statutes to require the Legislative Audit Bureau to conduct biennial program and financial audits on the W-2 and child care programs. Authorize the Legislative Audit Bureau to charge DWD for all or a portion of the costs of performing these audits.

Prepared by: Victoria Carreón

Attachments

ATTACHMENT 1

Performance Standards Comparison

Current W-2 Contract				2002-2003 W-2 Contract			
Criteria	Base Contract Benchmark and Right of First Selection Level	First 2% Performance Bonus Benchmark	Second 2% Performance Bonus Benchmark	Criteria	Base Contract Benchmark and Right of First Selection Level	Restricted Performance Bonus Benchmark: Community Reinvestment	Unrestricted Performance Bonus Benchmark
MANDATORY STANDARDS							
				I. Meet Priority Participant Outcomes			
Entered Employment Placement Rate: Number of W-2 and FSET participants who entered unsubsidized employment divided by total number of participants.	35% or more	40% or more	45% or more	**Entered Employment Placement Rate:** Number of W-2 and FSET participants who entered unsubsidized employment divided by total number of participants.	35% or more for full and part-time jobs	35% or more for full-time jobs only	40% or more for full-time jobs only
Wage Rate: The base wage rate at placement for W-2 and FSET participants who enter unsubsidized employment as a percentage of the base wage attained in 1998.	100% or more	102.5% or more	105% or more	**Earnings Gain:** W-2 participant's gain in earnings over time due to increased hours and/or increased hourly wage.	50% with any earning gain	50% with average monthly gain of $50	50% with average monthly gain of $100
Job Retention Rate: Percentage of W-2 and FSET participants that remain employed after a 30-day and 180-day contact. Either can be met.	30-day contact: 75%+ 180-day contact: 50%+	30-day contact: 80%+ 180-day contact: 55%+	30-day contact: 85%+ 180-day contact: 60%+	**Job Retention Rate:** Percentage of W-2 and FSET participants that remain employed after a 30-day and 180-day contact. Both must be met.	30-day contact: 75%+ 180-day contact: 50%+	30-day contact: 80%+ 180-day contact: 55%+	30-day contact: 85%+ 180-day contact: 60%+

Current W-2 Contract				2002-2003 W-2 Contract			
Criteria	Base Contract Benchmark and Right of First Selection Level	First 2% Performance Bonus Benchmark	Second 2% Performance Bonus Benchmark	Criteria	Base Contract Benchmark and Right of First Selection Level	Restricted Performance Bonus Benchmark: Community Reinvestment	Unrestricted Performance Bonus Benchmark
Full and Appropriate Engagement: Appropriate engagement for each W-2 and FSET participant.	80% or more	85% or more	90% or more	**Full and Appropriate Engagement:** A. Appropriate engagement for each W-2 and FSET participant B. W-2 extension cases must be assigned to one or more of the following activities: AODA assessment, AODA counseling, disability assessment, mental health assessment, mental health counseling, SSI advocacy/application, physical rehabilitation, domestic violence services, personal care. Both must be met.	80% or more	85% or more	90% or more
Basic Education Activities: W-2 and FSET adults in appropriate education and training activities.	80% or more	85% or more	90% or more	**Basic Education Activities:** W-2 adults in appropriate education and training activities.	80% or more	85% or more	90% or more
Available Employer Health Insurance Benefits: Employer health insurance benefit is available no later than 180 days after W-2 and FSET participants enter unsubsidized employment.	30% or more	35% or more	40% or more				
				Educational Activities Attainment: W-2 adults completing an educational activity, job skills training or technical college activity.	35% or more	40% or more	45% or more

Current W-2 Contract				2002-2003 W-2 Contract			
Criteria	Base Contract Benchmark and Right of First Selection Level	First 2% Performance Bonus Benchmark	Second 2% Performance Bonus Benchmark	Criteria	Base Contract Benchmark and Right of First Selection Level	Restricted Performance Bonus Benchmark: Community Reinvestment	Unrestricted Performance Bonus Benchmark
				II. Deliver High Quality and Effective Case Management Services			
				FEP to Caseload Ratio: No Financial and Employment Planner may have a caseload of more than 55 W-2 cash cases. No FEP can have a total caseload of more than 125 cases.	Meets requirement for all 8 quarters, first 4 quarters for Right of First Selection.	Not Applicable	Not Applicable
				W-2 Agency Staff Training: W-2 agency staff meeting DWD training requirements.	90% or more	95% or more	100%
				Appropriate W-2 Tier Placement: Appropriate placement in unsubsidized employment or subsidized employment position. A. Percentage with assessment within 30 days. B. Percentage of W-2 transitional placements with an assessment by a medical professional. Both must be met.	A. At least 80% B. At least 80%	A. At least 85% B. At least 85%	A. At least 90% B. At least 90%
				Extension Requests: A. Timely processing of 24 and 60-month extension requests. B. Timely CARES documentation for extension requests. Both must be met.	A. At least 85% B. At least 95%	Not Applicable	Not Applicable

Current W-2 Contract				2002-2003 W-2 Contract			
Criteria	Base Contract Benchmark and Right of First Selection Level	First 2% Performance Bonus Benchmark	Second 2% Performance Bonus Benchmark	Criteria	Base Contract Benchmark and Right of First Selection Level	Restricted Performance Bonus Benchmark: Community Reinvestment	Unrestricted Performance Bonus Benchmark
				III. Deliver Services that Meet Customer Expectations			
				Customer Satisfaction: Deliver services that meet customer expectations, measured through a survey.	Score of at least 6.5 or greater on a 10 point scale for each of 10 items.	Not Applicable	Allocated proportionately to 10 highest scoring agencies, up to 200% of an agency's allocation
				IV. Agency Accountability			
				Financial Management: No significant audit findings.	Must meet	Not Applicable	Not Applicable
				Contract Compliance: W-2 agency has not been subject to a corrective action plan for substantial noncompliance under the 2002-2003 W-2 contract	Must meet	Not Applicable	Not Applicable

Current W-2 Contract				2002-2003 W-2 Contract			
Criteria	Base Contract Benchmark and Right of First Selection Level	First 2% Performance Bonus Benchmark	Second 2% Performance Bonus Benchmark	Criteria	Base Contract Benchmark and Right of First Selection Level	Restricted Performance Bonus Benchmark: Community Reinvestment	Unrestricted Performance Bonus Benchmark
Optional Standards							
Faith-Based Contract: Existence of a contract between W-2 agency and a faith-based provider.	Not Applicable	Not Applicable	Have a faith-based contract for at least seven out of eight quarters. Substitute one optional standard for one other standard.	**Faith-Based Contract:** Existence of a contract between W-2 agency and a faith-based provider.	Not Applicable	Not Applicable	Have a faith-based contract that provides services for at least seven out of eight quarters. Substitute one optional criterion for one of the "Meet Priority Outcomes for Participants" standards.
Basic Skills/Job Attainment: Successful completion of basic skills or job skills program.	Not Applicable	Not Applicable	50% of participants assigned to basic skills or job skills training complete the training successfully. Substitute one optional standard for one other standard.	**SSI Advocacy:** Existence of a contract with an SSI advocacy agency or have an SSI advocate on staff.	Not Applicable	Not Applicable	Have a contract with an SSI advocacy agency or have an SSI advocate on staff. Substitute one optional criterion for one of the "Meet Priority Outcomes for Participants" standards.
				Available Employer Health Insurance Benefits: Employer health insurance benefit available no later than 180 days after W-2 and FSET participants enter unsubsidized employment.	Not applicable	Not applicable	50% or more have health insurance. Substitute one optional criterion for one of the "Meet Priority Outcomes for Participants" standards.

Current W-2 Contract				2002-2003 W-2 Contract			
Criteria	Base Contract Benchmark and Right of First Selection Level	First 2% Performance Bonus Benchmark	Second 2% Performance Bonus Benchmark	Criteria	Base Contract Benchmark and Right of First Selection Level	Restricted Performance Bonus Benchmark: Community Reinvestment	Unrestricted Performance Bonus Benchmark
Informational Standards							
None				**Average Wage at Placement:** Measure wage rate compared to average wage rate attained during calendar year 2000 for the agency's FSET and W-2 population.			
				Addressing Barriers: Measure activities designed to reduce barriers to employment.	Not Applicable	Not Applicable	Not Applicable
				Expanded Caseload: Levels of participants in children first, welfare-to-work and workforce attachment and advancement.	Not Applicable	Not Applicable	Not Applicable
				In-Work Supports: Measure levels of EITC, child care, medical assistance, food stamps and child support.	Not Applicable	Not Applicable	Not Applicable
				Moving out of Poverty: Wage data during and after program participation in W-2, FSET, children first, welfare-to-work and workforce attachment and advancement.	Not Applicable	Not Applicable	Not Applicable
				Recidivism Rates: Percentage returning to cash payments.	Not Applicable	Not Applicable	Not Applicable
				18 and 19 Year Olds in School: Measure activities and employment.	Not Applicable	Not Applicable	Not Applicable

ATTACHMENT 2

W-2 Agency Performance for Calendar Year 2000

Region	Entered Employment Rate	Wage Rate	Job Retention		Health Benefits	Full and Appropriate Engagement	Basic Education
			30 Day	180 Day			
Adams	41%	109%	92%	69%	36%	98%	80%
Ashland	38	121	85	69	46	86	100
Bad River Tribe	43	131	91	88	83	83	85
Barron	42	117	85	63	62	93	84
Bayfield	71	109	90	69	27	86	57
Brown	48	119	77	63	45	99	96
Buffalo	58	112	91	77	69	93	100
Burnett	36	128	79	54	33	80	83
Calumet	48	111	100	73	62	84	94
Chippewa	46	125	98	71	76	91	81
Clark	46	115	88	68	60	97	87
Columbia	58	120	84	78	74	98	95
Crawford	57	103	100	88	100	100	NA
Dane	51	113	86	54	66	92	93
Dodge	46	118	86	71	50	100	100
Door	46	136	100	69	58	94	100
Douglas	40	116	92	60	47	95	89
Dunn	66	116	79	62	47	91	84
Eau Claire	52	109	83	57	48	91	84
Florence	55	107	100	78	36	96	86
Fond du Lac	50	120	87	58	61	99	97
Forest, Oneida, Vilas	52	115	86	61	43	93	87
Grant- Southwest Consortium	42	120	91	71	70	96	91
Green Lake	71	122	80	50	57	81	93
Iron	93	131	100	67	36	100	100
Jackson	51	122	92	62	52	95	88
Jefferson	56	105	89	71	70	95	89
Juneau	55	117	85	57	54	98	100
Kenosha	37	115	82	60	36	93	91
Kewaunee	55	124	80	69	68	97	100
LaCrosse	70	114	85	64	60	99	94
Langlade	37	115	81	56	52	81	83
Lincoln	64	118	88	70	53	95	88
Manitowoc	45	113	84	73	36	94	100
Marathon	47	114	86	60	50	92	87

Region	Entered Employment Rate	Wage Rate	Job Retention 30 Day	Job Retention 180 Day	Health Benefits	Full and Appropriate Engagement	Basic Education
Marinette	59%	115%	85%	68%	67%	98%	100%
Marquette	63	126	93	92	73	98	81
Menominie	35	109	93	52	32	62	66
Milwaukee-ESI	43	112	92	72	68	94	92
Milwaukee- Maximus	43	112	80	56	79	93	84
Milwaukee- OIC	41	116	85	62	82	89	89
Milwaukee- UMOS	39	115	85	55	74	88	85
Milwaukee YW Works	45	111	89	66	86	88	89
Monroe County	57	114	81	64	52	98	90
Oconto	66	115	76	72	45	90	96
Oneida Tribe	47	109	75	70	40	83	83
Outagamie	57	107	84	55	57	89	84
Ozaukee	41	124	79	57	53	82	100
Pepin	41	103	75	100	63	100	100
Pierce	52	127	81	63	67	91	100
Polk	45	123	80	63	53	86	83
Portage	61	118	80	55	33	98	100
Price	62	118	77	82	65	89	85
Racine	51	117	83	63	51	100	93
Rock	43	119	80	54	35	96	84
Rusk	49	117	85	62	48	96	100
Sauk	53	117	93	75	97	100	100
Sawyer	53	116	91	74	30	84	100
Shawano	39	118	91	78	56	100	100
Sheboygan	60	123	84	69	59	97	98
St. Croix	69	116	84	58	59	100	83
Taylor	48	116	90	75	62	97	100
Trempealeau	48	119	77	67	74	92	100
Vernon	38	119	81	54	51	94	88
Walworth	59	113	91	67	67	99	100
Washburn	58	108	90	74	49	95	80
Washington	55	118	81	72	56	92	90
Waukesha	51	122	94	76	73	93	89
Waupaca	41	116	76	50	57	86	83
Waushara	66	115	88	53	40	100	100
Winnebago	35	120	88	59	37	90	84
Wood	58	119	90	63	44	85	80
AVERAGE	51	117	86	66	56	93	90

ATTACHMENT 3

Proposed Performance Bonus Allocations and Example

Proposed Statewide Performance Bonus Allocation

	Community Reinvestment		Unrestricted Bonus	
	Portion of Allocation	Allocation	Portion of Allocation	Allocation
Priority Participant Outcomes	65%	$7,227,740	60%	$7,500,000
High Quality and Effective Case Management	35%	3,891,860	30%	3,750,000
Customer Expectations	0%	0	10%	1,250,000
Total Allocation	100%	$11,119,600	100%	$12,500,000

Example

Agency's Contract Allocation	$1,000,000
Agency's Proportion of All Contract Allocations	0.30%

Agency's Potential Allocations	Community Reinvestment	Unrestricted Bonus	Total
Priority Participant Outcomes*	$22,022	$22,851	$44,873
High Quality and Effective Case Management**	11,858	11,426	23,283
Customer Expectations***	0	See ***	0
Total Allocation	$33,879	$34,277	$468,156

*Although not specifically stated in DWD's draft contract terms, the agency could receive 1/6 of this allocation for each priority participant outcome standard benchmark met.
**Although not specifically stated in DWD's draft contract terms, the agency could receive 1/2 of this allocation for each high quality and effective case management standard benchmark met.
***If agency is one of the top 10 scorers, agency would receive a proportionate share of $1,250,000 based on its caseload in relation to the other top 10 scorers. No agency could receive more than 200% of its base allocation.

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May 21, 2001 Joint Committee on Finance Paper #1044

Temporary Assistance for Needy Families (TANF)

W-2 Financial Oversight (DWD -- Economic Support and Child Care)

[LFB 2001-03 Budget Summary: Page 737, #8 and Page 744, #26]

CURRENT LAW

For the 1999-01 biennium, the Milwaukee Private Industry Council (PIC) has been provided $1,000,000 annually for providing oversight and coordination services to the Wisconsin Works (W-2) contractors in Milwaukee County. The PIC is responsible for: (a) monitoring W-2 agencies' compliance with the provisions in their contracts; (b) providing technical assistance; and (c) assisting in the coordination of W-2 services among the five Milwaukee County W-2 agencies. Oversight of non-Milwaukee County W-2 contractors is currently performed by state staff using funds for state administration. The total budgeted in 2000-01 for state administration of all TANF-funded programs was $27.5 million, a portion of which is used for financial oversight.

GOVERNOR

Decrease the amount of funding to the Milwaukee PIC by $500,000 annually for a total allocation of $500,000 annually and provide new funding for statewide financial oversight of $500,000 annually.

DISCUSSION POINTS

Milwaukee Private Industry Council

1. DWD contracts with the Milwaukee PIC for financial oversight and coordination of the W-2 agencies in Milwaukee County. For the 1999-01 biennium, the PIC has been provided

$1,000,000 annually. DWD has contracted with the PIC for these services since January, 1997, for a total of $7,500,000 since that time. Some of the PIC's responsibilities include: (a) reviewing all fact-finding proceedings conducted by agencies and helping to correct procedural deficiencies; (b) ensuring that agencies take appropriate action to assist participants approaching the 24-month time limit placed on employment in each subsidized category; (c) reviewing all agency requests for extension of the 24-month time limit for receipt of cash assistance and making recommendations to DWD; (d) ensuring the work performed in community service jobs and transitional placements is consistent with the participant's employability plans; and (e) providing financial oversight through reviews of cost allocation plans, the appropriateness of agency expenditures and whether agencies are within their budget allocations.

2. In its audit of the W-2 program, the Legislative Audit Bureau assessed the Milwaukee PIC's performance and found that the PIC was not meeting all of its contractual obligations. Findings by the Audit Bureau include: (a) the PIC met its requirement to review cases approaching the 24-month time limit in only three of 14 months it was required to conduct reviews but the PIC and DWD counter that the PIC's review was not necessary under the review process that was developed by DWD; (b) between June, 1999, and August, 2000, the PIC reporting visiting only five work sites, although its contracts required monthly site visits; and (c) between January, 1998, and August, 2000, the PIC reviewed more than 1,500 fact-finding requests for Milwaukee County, but there was no systemic follow-up to determine if W-2 agencies implemented the PIC's recommendations. The Audit Bureau also found that while the PIC did perform some budget monitoring, it did not review whether agency expenditures were appropriate because W-2 agencies were resistant to this review and DWD directed the PIC not to exercise these responsibilities. The PIC's current contract, which began in July, 1999, does not contain any financial monitoring responsibilities. The Audit Bureau suggests that some of the unallowable and questioned costs charged by Milwaukee W-2 agencies to the 1997-1999 W-2 contracts could have been avoided if the PIC had been more diligent in its financial oversight.

3. The Audit Bureau also found that DWD did not regularly reviewed the PIC's work until recently. In October, 2000, DWD completed a review to determine whether the PIC had complied with the terms of its contract and whether continuation of the current contract was justified. DWD examined monthly reports from January, 2000, through July, 2000, and concluded that the PIC had not met the terms of the contract by performing all assigned tasks. DWD found: (a) the required number of fact-finding cases, child care cases and work sites had not been reviewed; (b) the number of case reviews was insufficient and these reviews did not include sufficient analysis, were not timely and were not shared with the W-2 agencies; (c) the PIC's monthly reimbursement claims did not correspond to activities; and (d) little is known regarding the effectiveness of the PIC's work. DWD also found that the Milwaukee W-2 agencies were generally critical of the PIC and indicated that it is rarely used for technical assistance, is not always effective in providing technical assistance and is usually the last contact an agency might make for technical assistance.

4. DWD has proposed a number of remedies for the deficiencies identified, including auditing the PIC and changing the format of the monthly PIC reports to reflect contract requirements.

Statewide Financial Oversight

5. As part of its 2001-03 budget request, DWD recommended deleting the $1,000,000 annual allocation for the PIC and instead recommended that $1,000,000 be allocated annually for 12.0 FTE to provide financial oversight of W-2 agencies in Milwaukee County. The Governor's proposed budget would reduce the amount of funding for the PIC by $500,000 annually and would instead allocate $500,000 annually for other financial oversight. Although not specified in the bill, the administration indicates that the new funds could be used statewide to augment overall oversight activities. No additional positions were provided for this function, so DWD would be required to utilize existing staff or contract out this function. DWD has not decided whether it would utilize existing state staff or contract out this function.

6. DWD currently utilizes state staff for financial oversight of W-2 agencies. While DWD is not able to determine how much funding or how many FTEs are specifically dedicated to financial oversight functions, staff involved in financial oversight include field support staff, auditing and contracting staff, finance staff, and staff that support expenditure tracking computer programs. The total allocation for state administration of all components of the TANF program was $27.5 million in 2000-01 (including W-2, child care, food stamp employment and training (FSET) program, and other TANF-funded programs). For the W-2 program specifically, the amount spent on state administration for the period of January, 2000, through September, 2000, was approximately $6.8 million. This amount includes all state administration activities, not just financial oversight.

7. DWD has been engaged in a financial monitoring and oversight improvement project and the additional $500,000 recommended in the Governor's budgeted would be used to continue these efforts. The goal of the project is to assure that the W-2 program is administered with strict adherence to appropriate financial standards. The primary focus of the project is to design and implement systems and processes that are proactive to prevent audit findings or allegations of financial misconduct. These activities include more clearly communicating policies and expectations, increasing the number of training and technical assistance opportunities, enhancing the monitoring and oversight done to assess compliance and following up on compliance issues. Specific strategies include: (a) conducting a comprehensive review of all financial policies and procedures for W-2 agencies to ensure expectations of prudent fiscal management are clearly outlined; (b) updating the financial management manual to provide more specificity on the definition of allowable costs; (c) hosting fiscal roundtables across the state to ensure all W-2 agencies know what expenditures are appropriate and to clarify expectations; (d) developing additional requirements for certain expenditures that would need prior approval by the Department; (e) reviewing and monitoring agencies for appropriateness of expenditures before audits; and (f) expansion of audit requirements to sample a specified number of financial transactions and conduct additional testing in the event questioned costs or disallowances are identified.

8. Based on the PIC's past performance as documented by the Legislative Audit Bureau's audit of the W-2 program, it could be argued that no additional funding should be allocated to the PIC and that the PIC's $500,000 annual allocation should instead be provided to DWD for additional financial oversight. Under this option, total new funding allocated to DWD for financial

oversight would be $1,000,000 annually. Providing additional funds for financial oversight could help address concerns that enhanced financial oversight of W-2 agencies is necessary in light of audit findings that some agencies misused funds during the initial contract period, which ran from September, 1997, to December, 1999.

9. However, the administration states that the Governor wanted to retain a role for the PIC in financial oversight of the Milwaukee W-2 agencies while simultaneously providing resources for statewide oversight efforts. To retain a role for the PIC, funding could continue to be provided, either at the level recommended by the Governor, or at a lower level.

10. Another option would be to eliminate or decrease funding for the PIC and not allocate savings to statewide oversight because DWD already has administrative staff that can perform financial oversight functions and has not decided whether it will use state staff or contractors to perform this function. However, DWD may have limited ability to perform additional financial oversight without new funds since the Governor proposed cutting TANF administration by $1,000,000 annually to reflect efficiencies gained from the merger of DWD's Division of Workforce Excellence and Division of Economic Support.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to: (a) decrease funding for the Milwaukee Private Industry Council by $500,000 FED annually for an allocation of $500,000 annually; and (b) provide $500,000 FED annually for financial oversight of the W-2 program.

2. Eliminate funding for the Milwaukee Private Industry Council and provide additional funding for statewide financial oversight of $500,000 FED annually, resulting in a statewide financial oversight allocation of $1,000,000 annually.

3. Decrease funding for the Milwaukee Private Industry Council by some other amount and use the savings to increase funding for statewide financial oversight.

4. Eliminate funding for the Milwaukee Private Industry Council.

Alternative 4	FED
2001-03 FUNDING (Change to Bill)	- $1,000,000

5. Maintain current law and continue to provide $1,000,000 annually for the Milwaukee Private Industry Council. Under this option, no new funds would be provided for statewide oversight.

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May 21, 2001 | Joint Committee on Finance | Paper #1045

Temporary Assistance for Needy Families (TANF)

Direct Child Care Program (DWD – Economic Support and Child Care)

[LFB 2001-03 Budget Summary: Page 737, #10 & Page 738, #11]

CURRENT LAW

The direct child care program provides funds for: child care subsidies through the Wisconsin Shares program; local administration of Wisconsin Shares; on-site child care at job centers and counties; and migrant child care. Base funding for direct child care is $181,050,000. However, the actual amount available in 2000-01 is $237,180,100, including funds added by the Joint Committee on Finance in July, 2000, and April, 2001.

Under current law, the Wisconsin Shares program is administered by the Department of Workforce Development (DWD) through local Wisconsin Works (W-2) agencies and county human and social services departments. To be eligible for child care subsidies, families must generally have an initial income of no more than 185% of the federal poverty level. Once eligible, families retain eligibility until gross income exceeds 200% of the federal poverty level. There are no resource limits for the program. The individual applying for child care must be a custodial parent, guardian, foster parent, legal custodian or person acting in place of a parent. The subsidy can be provided for children under age 13 and for children under age 19 who are physically or mentally incapable of their own care.

Families must need child care to do any of the following: (a) work in an unsubsidized job; (b) work in a W-2 employment position; (c) participate in the food stamp employment and training (FSET) program; (d) participate in basic education or a course of study to obtain a GED, if the W-2 agency determines that basic education would facilitate the individual's efforts to maintain employment; (e) participate in a course of study at a technical college or participate in educational courses to provide an employment skill, if the W-2 agency determines that basic education would facilitate the individual's efforts to maintain employment; (f) meet the

Learnfare school attendance requirement for children of W-2 participants; or (g) obtain a high school diploma or participate in a course of study to obtain a GED if the parent is age 19 or younger. An individual may receive a child care subsidy under items (d) and (e) for up to two years.

Families are required to pay a weekly copayment depending on the family's gross income, family size, the number of children receiving child care, and the type of care selected. Copayments are not required for the following types of participants: (a) teen parents who are Learnfare participants; (b) FSET participants; and (c) foster care and kinship care parents who have court-ordered placement of a child. The minimum copayment for the type of child care and the number of children receiving child care is required for the following participants: (a) individuals under age 20 who are attending high school or participating in a course of study to obtain a GED; (b) non-court-ordered kinship parents; and (c) parents who have left a W-2 position for an unsubsidized job within the last month. Families with children who are authorized for child care assistance for 20 hours or less are responsible for 50% of the copayment amount. The copayment schedule is structured so that the required copayment will not exceed 11.6% of the family's income. DWD has the authority to change copayments administratively to account for the following factors: (a) child care price changes; (b) the amount of available child care funding; (c) inflation; (d) changes in the federal poverty level; and (e) other economic factors that affect the cost of child care, such as demand. If the copayments will increase by more than 10%, the change must be promulgated by rule.

On a local level, W-2 agencies determine eligibility for the child care subsidy program then refer individuals to a county department of social or human services for child care assistance. The county departments administer the program and do all of the following: (a) determine a parent's copayment; (b) provide a voucher to individuals for the payment of child care services or otherwise reimburse child care providers; (c) set maximum reimbursement rates for day care providers; (d) certify providers that are not licensed by the state; and (e) assist eligible individuals to identify and select appropriate child care. In most counties, the W-2 agency and the county department are the same entity.

Each county is required to establish the maximum child care subsidy that will be paid to a licensed child care provider on an annual basis, subject to DWD review and approval. The rates are determined by surveying licensed group and licensed family day care centers for the rates they charge to the general community. The rate is set so that at least 75% of the number of places for children with licensed providers could be purchased at or below the maximum rate. The maximum rate for regular certified providers cannot exceed 75% of the rate for licensed family day care providers and the maximum rate for provisionally certified providers cannot exceed 50% of the rate for licensed family day care providers.

Under current law, foster care parents and court-ordered short-term kinship care relatives can receive child care subsidies if the child's biological or adoptive family has income at or below 200% of the federal poverty level. If the child's biological or adoptive family has income above the eligibility limits, then the foster or kinship care parents must have income at or below

185% of the federal poverty level. In contrast, court-ordered long-term kinship care relatives and all non-court-ordered kinship care relatives fall under the general eligibility standard, and kinship care relatives must have initial income at or below 185% of the federal poverty level.

Current law also prohibits DWD from distributing child care subsidies to persons who reside with the child, unless the county determines that the care is necessary because of a special health condition of the child. Parents who do not reside with the child are currently not subject to this provision. The term "parent" is currently defined as a custodial parent, guardian, foster parent, treatment foster parent, legal custodian or person acting in place of a parent.

GOVERNOR

Provide $242,475,000 annually for child care subsidies provided through the Wisconsin Shares program. The Governor's proposed funding level is a $5,294,900 annual increase over the amount budgeted in 2000-01 ($237,180,100). The bill provides that if DWD determines that funds allocated for child care subsidies are insufficient to provide a subsidy to eligible recipients, the Department could develop a plan to limit participation in the program. The plan could have different eligibility requirements than those required under current law. DWD would be required to submit the plan to the Secretary of the Department of Administration (DOA) for approval and DWD could implement the plan if the DOA Secretary approves the plan.

The bill would also modify two eligibility requirements for child care subsidies. The bill would make the financial eligibility requirements the same for both long- and short-term court-ordered kinship care. Under current law, court-ordered short-term kinship care relatives can receive child care subsidies if the child's biological or adoptive family has income at or below 200% of the federal poverty level, while long-term court-ordered kinship care relatives must meet the general income eligibility standard of 185% of the federal poverty level. Under the bill, both long- and short-term court-ordered kinship care relatives would be eligible for child care subsidies if the biological or adoptive parents have income at or below 200% of the federal poverty level. All non-court-ordered kinship care relatives would still be subject to the general income eligibility standard of 185% of the federal poverty level. This provision would first apply to eligibility determinations made on the day after publication.

The bill would also prohibit DWD from distributing child care subsidies to all parents, whether or not they reside with their child, unless the county determines that the care is necessary because of a special health condition of the child. Under current law, providers cannot receive child care reimbursements for children that reside with them. This provision would first apply to child care funds distributed on the day after publication.

DISCUSSION POINTS

1. Wisconsin's child care program is composed of three elements: (a) the direct child care program, which provides child care subsidies through the Wisconsin Shares program, on-site

child care at job centers and counties, as well as migrant child care services; (b) programs to improve the quality and availability of child care; and (c) the local pass-through program, which provides funds to local entities for child care activities. There are three sources of funds for Wisconsin's child care program: (a) the federal child care and development fund (CCDF); (b) the federal temporary assistance for needy families (TANF) block grant; and (c) GPR required to be spent as maintenance of effort for CCDF.

2. Table 1 below details the proposed amount of each source of revenue for the next biennium and the proposed uses of the funds, as corrected by the Department of Administration's (DOA) errata list. This paper focuses on the direct child care program, while papers #1047, #1048 and #1049 focus on programs to improve child care quality and availability and the local pass-through program.

TABLE 1

Child Care Sources of Funding and Proposed Uses for 2001-03

	2001-02	2002-03
Funding Sources		
GPR	$16,449,400	$16,449,400
CCDF	78,114,100	78,114,100
TANF	181,384,600	181,554,900
	$275,948,100	$276,118,400
Uses		
Direct Child Care	$242,475,000	$242,475,000
Programs to Improve Quality and Availability of Child Care	16,206,000	16,390,200
Local Pass-Through Program	17,267,100	17,253,200
	$275,948,100	$276,118,400

Child Care Subsidy Funding

3. Child care expenditures have increased dramatically both nationwide and in Wisconsin. According to a February, 2001, report by the federal General Accounting Office (GAO) entitled *Child Care: States Increased Spending on Low Income Families*, total child care expenditures by states rose from $4,120 million in federal fiscal year (FFY) 1997 to $6,965 million in FFY 1999 in constant 1997 dollars, which represents an increase of 69%. In Wisconsin, the GAO reported that expenditures increased from $58 million in state fiscal year 1994-95 to $166 million in 1999-00 in constant 1997 dollars, which represents an increase of 186%. The GAO reported that other states also had large increases over this time frame, including a 166% increase in California, a 95% increase in Michigan and Connecticut and a 75% increase in Texas.

4. Other Midwestern states have also experienced dramatic growth in their child care subsidy programs. In Illinois, annual caseload growth has ranged from 25% to 33% in the last three years. Expenditures were $263 million in 1997 and are estimated at $664 million for 2000-01. According to state officials, the demand is expected to increase by 5% in 2001-02, resulting in the need for an additional $30 million. In Michigan, annual caseload growth is 6% to 8%. Expenditures were $203 million in 1997 and are estimated at $494 million for 2000-01. Michigan has provided sufficient funding for the program and is considering increasing eligibility limits from 185% to 200% of the federal poverty level. Minnesota has two programs, one for families receiving TANF assistance and another for other families. While Minnesota has had sufficient funds to meet demand for its TANF program, funding for the other program is capped, which has resulted in a waiting list of 3,438 families as of January 31, 2001. The state is considering consolidating the child care assistance program so that initial eligibility for all families would be 50% of state median income and maximum eligibility would be 75% of state median income.

5. Demand for the Wisconsin Shares child care subsidy program has been rising ever since it began in September, 1997. The average monthly growth rate in the number of families in the program has been about 2.0% since the start of the program, representing approximately 26.8% annual growth. In March, 2001, there were 23,446 families participating in the program, representing 40,896 children. With a 2% monthly growth rate, expenditures are projected to equal $237,180,100 by the end of 2000-01. Funds allocated for the direct child care program in Act 9 and through a Committee action in July, 2000, totaled $200,858,200, resulting in a projected deficit of approximately $36,321,900. To address this projected shortfall, the Committee acted on April 24, 2001, to provide $35,475,100 FED and $846,800 GPR for a total of $36,321,900.

6. It is reasonable to expect that demand for Wisconsin Shares will continue to grow in the next biennium. The Legislative Audit Bureau estimated that the percentage of eligible children participating in child care subsidy programs from April through September, 1998, was 15.5% nationwide. In Wisconsin, the percentage of eligible participants served during that time was estimated at 13.6%. Other Midwestern states were serving higher percentages of the eligible population during that time period: 23.8% in Ohio, 24.6% in Michigan and 27.1% in Illinois.

7. The pace of growth could begin to slow in the next biennium. There has been a 31.5% increase in the number of families participating in the child care subsidy program from March, 2000, to March, 2001. A large portion of this increase can be attributed to law changes that went into effect in March, 2000, that significantly expanded eligibility for the child care subsidy program. Since the Governor's budget bill does not propose law changes that would significantly change eligibility, the pace of growth may not be as dramatic as in the past year. If the subsidy program grows at a rate of 15% in 2001-02 and 10% in 2002-03, the amount of funding needed to continue the program with no eligibility changes would be approximately $274.5 million in 2001-02 and $305.6 million in 2002-03. However, if the participant growth rate exceeds these projections, additional funds could be needed during the biennium.

8. The bill would also change the eligibility requirements for court-ordered long-term kinship care relatives and prohibit providing subsidies to parents who do not reside with their

children, unless the county determines that the care is necessary because of a special health condition of the child. These changes are not anticipated to have any significant fiscal effect, keeping total estimated costs at $274.5 million in 2001-02 and $305.6 million in 2002-03.

9. The Governor's proposed budget includes $242,475,000 annually in the 2001-03 budget for the direct child care program. Therefore, the program is estimated to be underfunded by approximately $32.0 million in 2001-02 and $63.1 million in 2002-03, for a total of $95.1 million over the biennium.

Options to Reduce Program Costs

10. To address the projected shortfall, the Committee could reduce costs in the child care subsidy program. The following options are discussed in this paper: (a) the Governor's proposal to have DWD develop a plan to limit participation; (b) increasing copayments; (c) modifying reimbursement rates; (d) imposing stricter income limitations; (e) establishing waiting lists; or (f) implementing of combination of these alternatives. Each option is discussed in detail below.

a. DWD Plan

11. Due to increasing demand for the Wisconsin Shares program, the Governor proposed providing DWD with authority to develop a plan to limit participation in the program if sufficient funds are not available to meet demand. The plan could have different eligibility requirements than those required under current law, such as stricter income limits or additional limitations on the types of activities required to participate in the program. DWD would be required to submit the plan to the Secretary of the Department of Administration (DOA) for approval before it could be implemented. Under current law, DWD would also be allowed to modify the copayment requirements.

12. If the Legislature chooses this option, DWD would likely have to develop a plan within the first few months of the biennium, because a deficit of $32.0 million is projected for 2001-02. DWD would also need to program any changes necessary into the CARES computer system, which could take several months. The longer DWD waits to implement a plan, the more severe and abrupt the modifications to the program would have to be.

13. Because changes would likely be necessary from the very beginning of the fiscal year, the Committee may wish to make changes as part of the budget bill to exercise more legislative control over the types of changes made. Alternatively, the Committee could modify the Governor's proposal to require that DWD's plan to limit participation also be approved by the Joint Committee on Finance so that it can decide whether to accept DWD's plan, modify the plan, or add additional funds to the program.

b. Increase Copayments

14. A second option to reduce program costs would be to increase copayments required

of participants. Copayments are currently capped at 11.6% of participants' gross income. Prior to March, 2000, the maximum copayment was 16% of gross income. Large increases in copayments would be necessary to generate significant savings because copayments currently account for only 9% of the cost of care. In addition, approximately 25% of participants from July to December, 2000, had incomes of less than or equal to 70% of the federal poverty level, and were therefore, only required to pay the minimum copay, which is currently $4 per week for one child in licensed care and $2 per week for one child in certified care.

15. There are many different ways to change the copay schedule. A three-month implementation delay would be necessary for DWD to make necessary programmatic and computer changes. These scenarios assume an October 1, 2001, implementation date, but the costs would have to be recalculated if the Legislature does not adopt a budget at the start of the fiscal year. In addition, all copay alternatives presented in this paper assume that, under current law, DWD will change its copay schedules annually to adjust for increases in the federal poverty level and will keep the maximum copayment at 11.6% of gross income. One option would be to increase the copayment by a specific dollar amount for all participants over the current law copay schedule for each year. This would cause relatively large percentage increases for participants in the lower range of the copay schedule and smaller percentage increases for participants in the higher range of the copay schedule. A $1 increase over the current law copays for each year would result in savings of approximately $0.9 million in 2001-02 and $1.3 million in 2002-03 and would increase copays as a percentage of gross income from a maximum of 11.6% to 11.9% in 2001-02 and 11.8% in 2002-03. A $5 increase would reduce projected costs by approximately $4.4 million 2001-02 and $6.6 million in 2002-03 and would increase copays as a percentage of gross income from a maximum of 11.6% to 12.9% annually. To revert back to the 16% of income maximum that was in place prior to March, 2000, copays would have to be increased by $16.50 over current law copays for each year and would reduce projected costs by approximately $14.7 million in 2001-02 and $21.6 million in 2002-03.

16. Another option would be to increase copays for all participants by an equal percentage. This would result in small dollar increases for participants in the lower range of the copay schedule and larger dollar increases for participants in the higher range of the copay schedule. A 5% increase over the current law copays for each year would result in a savings of approximately $1.1 million in 2001-02 and $1.7 million in 2002-03 and would increase copays as a percentage of gross income from a maximum of 11.6% to 12.2% annually. A 15% increase would reduce projected costs by approximately $3.2 million 2001-02 and $5.0 million in 2002-03 and would increase copays as a percentage of gross income from a maximum of 11.6% to 13.4% in 2001-02 and 13.3% in 2002-03. To revert back to the 16% of income maximum that was in place prior to March, 2000, copays would have to be increased by 38% over current law copays for each year and would reduce projected costs by approximately $8.2 million in 2001-02 and $12.6 million in 2002-03.

17. The two options to revert back to maximum copayments of 16% of gross income have different cost savings. The savings would be less if copayments are increased by a percentage than if they were increased by a specific dollar amount because many participants are in the lower

income ranges of the copayment schedule and the dollar value of these participants' copayment increases would be less than if all participants had a flat copayment increase.

18. Other options to change copay requirements could include increasing copayments only for families at higher income levels to avoid negative impacts on families with lower income levels.

19. However, the Legislature may not wish to increase copayments because affordability of child care is a pressing issue for many families both nationwide and in Wisconsin. According to a December, 2000, study by the Urban Institute entitled *Child Care Expenses of America's Families,* 40% of low-earning families with incomes of less than 200% of the federal poverty level had out-of-pocket expenses for child care nationwide, compared to 38% in Wisconsin. Nationwide, these families paid an average of 15.9% of their earnings for child care. In Wisconsin, this percentage was 16.3%. In addition, the study found that 29% of Wisconsin's low-earning families were paying more than 20% of their earnings on child care.

In addition, the U.S. Department of Health and Human Services recommends in its regulations on the child care and development fund that copayment scales require a low-income family to pay no more than 10% of its income for child care to ensure equal access. While not all states have complied with this guideline, the Legislative Audit Bureau's child care audit released in January, 2001, states that copayment rates in Wisconsin are generally higher than in other Midwestern states. Table 2 below illustrates the percentage of monthly income a family of three with one infant and one toddler would have to pay in various Midwestern states.

TABLE 2

Monthly Copayment Comparison (July 2000)
Out-of-Pocket Child Care Costs as a Percent of Income

State	Families With Income at 100% of Federal Poverty Level	Families With Income at 150% of Federal Poverty Level
Illinois	17.5%	13.1%
Indiana	0.0%	7.3%
Iowa	3.7%	Ineligible
Michigan	5.0%	3.3%
Minnesota	0.4%	3.0%
Ohio	0.2%	9.7%
Wisconsin	7.6%	10.7%

c. Modify Reimbursement Rates

20. A third option would be to modify the reimbursement rates for providers. DWD is required to set reimbursement rates on an annual bases. Each county establishes the maximum child care subsidy that will be paid to a licensed child care provider on an annual basis, subject to DWD review and approval. The rates are determined by surveying licensed group and licensed family day care centers for the rates they charge to the general community. The rate is set so that at least 75% of the number of places for children with licensed providers could be purchased at or below the maximum rate. The maximum rate for Level I certified providers may not exceed 75% of the rate for licensed family day care providers and the maximum rate for Level II certified providers may not exceed 50% of the rate for licensed family day care providers.

21. One option would be to freeze the reimbursement rates for the entire biennium and not have an annual increase. This would save approximately $1.9 million in 2001-02 and $8.3 million in 2002-03. A second option would be to allow the reimbursement rates to grow in 2001-02, but not in 2002-03. This would generate savings of approximately $6.3 million in 2002-03. However, as the costs of child care increase, fewer providers would likely be willing to participate in the program and families would have fewer options for child care providers. Federal law requires states to certify that the payment rates for child care services are sufficient to ensure equal access for eligible children to comparable child care services provided to children whose parents are not eligible to receive assistance. If the Committee chooses this option, the state would have to be able to justify that families receiving child care subsidies are still receiving equal access. In addition, statutory provisions would have to be changed to provide a temporary or permanent exception to the requirement that counties set the reimbursement rate for licensed family providers so that at least 75% of the number of places for children can be purchased at or below the maximum rate.

d. Income Eligibility Limits

22. A fourth option would be to impose stricter income eligibility limits. Initial income eligibility is currently 185% of the federal poverty level and families can remain eligible until their incomes reach 200% of the federal poverty level. According to federal law, states can set their income limitations up to 85% of the state median income. In Wisconsin, 85% of median income is $49,300 for a family of four for FFY 2001, which is approximately 275% of the federal poverty level. Prior to March, 2000, initial eligibility was 165% of the federal poverty level. Changing initial eligibility back to 165% of the federal poverty level would result in a savings of approximately $6.6 million in 2001-02 and $12.2 million in 2002-03, assuming an October 1, 2001, implementation date. Changing initial eligibility to 115% of the federal poverty level would reduce projected costs by approximately $27.4 million in 2001-02 and $51.4 million in 2002-03, assuming an October 1, 2001, implementation date. Under these two scenarios, families would remain eligible for the program until their incomes reach 200% of the federal poverty level.

23. While families currently receiving child care subsidies would be allowed to remain part of the program, limiting eligibility would eliminate access to the program for some families. Under the option to reduce initial eligibility to 165% of the federal poverty level, an estimated 1,000

families in 2001-02 and 1,800 families in 2002-03 anticipated to seek the subsidy would not have access to the program. Under the option to reduce initial eligibility to 115% of the federal poverty level, families that would be denied access to the program are estimated at 3,000 in 2001-02 and 5,700 in 2002-03. The smaller caseload reductions in the first year are primarily due to the October 1, 2001, implementation date.

24. It could be argued that income eligibility levels should not be decreased because doing so would heighten affordability problems for families in the excluded income range. In addition, some states have more generous income eligibility standards than Wisconsin. According to the State Policy Documentation Project database maintained by the Center for Budget and Policy Priorities and the Center for Law and Social Policy, state income eligibility guidelines for families of three varied from 125% of the federal poverty level in South Carolina to 330% of the federal poverty level in Connecticut, as of October, 1999. In the Midwest, Minnesota had higher income limitations than Wisconsin at 275% of the federal poverty level. Limits in other Midwestern states as percentages of the federal poverty level were as follows: 157% in Illinois, 143% in Indiana, 155% in Iowa, 185% in Michigan and 182% in Ohio.

e. Waiting Lists

25. A fifth option to limit costs would be to place eligible participants on waiting lists. If the number of participants were capped at the number of children being served at the end of June, 2001, and a waiting list were implemented, projected costs would be reduced by approximately $33.1 million in 2001-02 and $59.6 million in 2002-03. This would almost reduce costs down to the level funded by the Governor. This means that an estimated 3,300 families in 2001-02 and 5,800 families in 2002-03 anticipated to seek the subsidy would not have access to the program. If the state waited three months to implement a waiting list, projected costs would be reduced by approximately $22.1 million in 2001-02 and $59.6 million in 2002-03, leaving approximately 2,200 families in 2001-02 and 5,800 families in 2002-03 without access to the program.

26. According to the Children's Defense Fund, at least 15 states had waiting lists for child care subsidies as of March, 2000: Alabama, Alaska, Arkansas, California, Florida, Georgia, Maine, Massachusetts, Minnesota, Mississippi, New York, North Carolina, Tennessee, Texas and Virginia.

27. Child care waiting lists may not be desirable because of their capricious effect. If a waiting list has no system of priorities, families already receiving child care subsidies would be able to remain on the program while new families would not be able to participate. New families with very low income levels would not have access to the program, while families with higher incomes already receiving the subsidy could remain on the program.

28. Waiting lists could also impact the W-2 program. A waiting list could undermine the philosophy of W-2, which is to provide support services that will enable people to work. In addition, federal regulations state that if a W-2 participant is a single custodial parent caring for a child under age six, the state may not reduce or terminate assistance based on the parent's refusal to engage in

required work if he or she demonstrates an inability to obtain needed child care because: (a) appropriate care within a reasonable distance is unavailable; (b) informal child care by a relative or under other arrangements is unavailable or unsuitable; (c) appropriate and affordable formal child care arrangements are unavailable. Therefore, if child care subsidies are not available because there is a waiting list, the W-2 agency would not be permitted to sanction participants who do not participate in work requirements. If a state is determined to have violated this provision, the federal government can reduce the state's TANF grant by up to 5% for the immediately succeeding federal fiscal year unless the state demonstrates that it had reasonable cause or achieves compliance under a corrective compliance plan. If the TANF block grant is reduced, the state must expend its own funds to replace the reduction in the grant.

29. If W-2 participants are denied child care funds and are unable to work, then the state's worker participation rates will decrease. However, this is not likely to have much of an impact because the adjusted worker participation rates required by the federal government in FFY 2000 were 0% for all families and 17% for two-parent families. If the state does not comply with the minimum worker participation requirements, the federal government can reduce the TANF grant from 5% to 21%, depending on how many years the state fails to meet the requirements and the degree of noncompliance. If the TANF block grant is reduced, the state must expend its own funds to replace the reduction in the grant.

30. In order to ensure that W-2 participants receive child care services, a system of priorities could be established for a waiting list or there could be exemptions to the waiting list. Exemptions could be created for persons participating in W-2 employment positions and/or with income less than 115% of poverty. Keeping current eligibility guidelines and implementing a waiting list for those below 115% of the federal poverty level would reduce projected costs by approximately $8.3 million in 2001-02 and $22.4 million in 2002-03. This means that an estimated 1,000 families in 2001-02 and 2,600 families in 2002-03 anticipated to seek the subsidy would not have access to the program. Changing the waiting list threshold to 150% of the federal poverty level would reduce projected costs by approximately $3.2 million in 2001-02 and $8.6 million in 2002-03, leaving approximately 400 families in 2001-02 and 1,200 families in 2002-03 without access to the program.

31. DWD indicates that it would need several months lead time to establish a waiting list system on its computer system. DWD would have to decide whether the waiting list would be by county, by state, how much information to gather from waiting list applicants and how to assign and weight priorities.

f. Combinations of Alternatives

32. The options described above could be combined in numerous ways to reduce projected costs to the level funded by the Governor's budget bill. It is important to note that alternatives discussed in the preceding sections cannot be added together to produce combinations of alternatives because the variables interact. A few options are discussed below and other options could be estimated for the Committee. All options assume an October 1, 2001, implementation date

to allow DWD to make any necessary programmatic and computer system changes.

33. One option would be to limit initial eligibility to 115% of the federal poverty level, allow no growth in reimbursement rates and to require a 20% increase in copays over the current law copay for each year. Families could remain eligible for subsidies until their income reaches 200% of the federal poverty level. This option would reduce projected costs by approximately $32.6 million in 2001-02 and $62.5 million in 2002-03 and would cost approximately the same as the amount provided by the Governor over the biennium. The impact on participants would be an increase in the maximum copay as a percentage of gross income from 11.6% to 14%. In addition, an estimated 3,000 families in 2001-02 and 5,700 families in 2002-03 anticipated to seek the subsidy would not have access to the program.

34. A second option would be to begin a waiting list in October, 2001, limit growth in reimbursement rates to the first year of the biennium and require a 10% increase in copays over the current law copay for each year. This option would reduce projected costs by approximately $26.8 million in 2001-02 and $67.2 million in 2002-03 and would cost approximately $1.2 million more than the biennial amount provided by the Governor. The impact on participants would be an increase in the maximum copay as a percentage of gross income from 11.6% to 12.8%. In addition, an estimated 2,500 families in 2001-02 and 5,800 families in 2002-03 anticipated to seek the subsidy would not have access to the program.

35. A third option would be to begin a waiting list in October, 2001, and have no growth in reimbursement rates in either year of the biennium. This option would reduce projected costs by approximately $26.5 million in 2001-02 and $66.2 million in 2002-03 and would cost approximately $2.5 million more than the biennial amount provided by the Governor. This option would not change the maximum copay as a percentage of gross income. However, an estimated 2,500 families in 2001-02 and 5,800 families in 2002-03 anticipated to seek the subsidy would not have access to the program.

Options to Fully Fund Child Care

36. Another option would be to fully fund the Wisconsin Shares program by reducing funding for other programs included in the TANF program. Papers #1046, #1047, #1048 and #1049 detail options for providing funding for direct child care. These papers focus on the indirect child care program, local pass-through program, as well as other TANF-funded programs. Alternatively, additional state funding could be provided.

Changes to Eligibility Requirements in the Bill

a. Kinship Care

37. The bill would make the eligibility requirements for long- and short-term court-ordered kinship care relatives consistent. According to DWD, the discrepancy in eligibility was the unintentional result of statutory changes in the last budget. Local W-2 agencies have been treating these two types of kinship care relatives the same, despite the law's distinctions. Therefore, DWD

states that the fiscal effect of this change would be minimal.

38. However, under the proposed change, not all kinship care families would be subject to the same child care subsidy eligibility requirements. All non-court-ordered kinship care relatives would continue to have to meet the general eligibility guidelines. These kinship care relatives would need to have initial income at or below 185% of the federal poverty level. It could be argued that the eligibility for non-court-ordered kinship care relatives should also be revised to be consistent with court-ordered kinship care. This would allow the income of the biological or adoptive parents to be used when determining income instead of the kinship care relative's income and would move the initial eligibility requirement from 185% to 200% of the federal poverty level. There are currently approximately 160 children in non-court-ordered kinship care per month. However, it is not known how many additional kinship care relatives would join the child care program because income data is not available for kinship care parents. Due to the anticipated shortfall in the child care subsidy program, it could be argued that eligibility changes that could result in additional costs should not be considered at this time.

b. Child Care Reimbursement to Parents

39. The bill would modify a current provision stating that child care reimbursement cannot be paid to a person who resides with the child, unless the county determines that the care is necessary because of a special health condition of the child. The new provision would clarify that parents cannot receive child care reimbursement, regardless of whether or not they reside with the child. "Parent" is defined as a custodial parent, guardian, foster parent, treatment foster parent, legal custodian or person acting in place of a parent. According to DWD, this provision is necessary because there have been a few cases where parents were determined to be eligible for child care reimbursement for their children because the parent was providing care at a different location than the home. According to DWD, the proposed change would clarify that parents should not receive child care reimbursements to care for their own children. This proposal is also anticipated to have a minimal impact on program costs.

40. The Committee may also want to consider expanding this prohibition to noncustodial parents. Noncustodial parents do not meet the definition of parent currently included in the statutes and would therefore not be prohibited from receiving reimbursement. While DWD is not aware of any instances where noncustodial parents are receiving child care subsidies to care for their own children, making this change would be consistent with DWD's policy goal of not allowing parents to receive child care reimbursement for care of their own children. This alternative is not anticipated to result in any significant impact on costs.

ALTERNATIVES TO BILL

Approve Governor's Recommendations

1. Approve the Governor's recommendation to:

a. Provide annual funding of $242,475,000 for child care subsidies.

b. Allow DWD to submit a plan to the Secretary of DOA for approval to limit participation in the Wisconsin Shares program if DWD determines that funds allocated for child care subsidies are insufficient to provide a subsidy to eligible recipients.

c. Modify eligibility requirements to make eligibility requirements for court-ordered long-term and short-term kinship care consistent.

d. Clarify that parents cannot receive child care reimbursements for caring for their own children, whether or not they reside with the child.

2. Modify the Governor's proposal to specify that any plan prepared by DWD and approved by DOA to limit participation in the child care subsidy program would be subject to approval by the Joint Committee on Finance through a 14-day passive review process.

Reduce Child Care Subsidy Costs

3. Make one or more of the following modifications to the Wisconsin Shares child care subsidy program to reduce projected costs. Costs for each option are not included because they will vary depending on the specific combination chosen.

a. Modify the copayment schedule in one or both fiscal years

b. Freeze reimbursement rates to child care providers for both fiscal years, or just in the second fiscal year.

c. Limit initial income eligibility to a level below 185% of the federal poverty level.

d. Begin a waiting list for all new participants or establish a waiting list for all participants above a specific federal poverty level.

Program Eligibility Changes in the Bill

4. Modify the Governor's proposal to make the eligibility requirements for non-court-ordered kinship care relatives the same as for court-ordered kinship care relatives. This option would allow the income of the biological or adoptive parents to be used when determining eligibility instead of the income of the kinship care parents. It would also raise the initial eligibility threshold to 200% of income for these participants.

5. Modify the Governor's proposal to specify that child care reimbursement cannot be paid to noncustodial parents, unless the county determines that the care is necessary because of a special health condition of the child.

Maintain Current Law

6. Maintain current law by: (a) denying the proposed funding increase; (b) maintaining the current eligibility rules for long-term court-ordered kinship care relatives; and (c) maintaining the current prohibition against providing child care reimbursement for children who reside with the child care provider.

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May 21, 2001 | Joint Committee on Finance | Paper #1046

Temporary Assistance for Needy Families (TANF)

Program Reduction Options to Pay for Child Care Subsidies (DWD -- Economic Support and Child Care)

[LFB 2001-03 Budget Summary: Page 339, #5, Page 731, #1, Page 735, #2, Page 736, #6 & #7, Page 737, #8 & #10, Page 740, #16, Page 741, #18, Page 742, #21, Page 743, #23, Page 744, #27 & 29, Page 745, #32, Page 746, #34 and Page 748, #43]

CURRENT LAW

TANF Funding

Under current law, funds from the temporary assistance for needy families (TANF) block grant are used for a variety of programs to assist low-income families. Under the Governor's budget bill, it is projected that there will be a shortfall in funding for the Wisconsin Shares child care subsidy program of $32.0 million in 2001-02 and $63.1 million in 2002-03 for a total of $95.1 million. This paper explores possible reductions in TANF-funded programs in the Department of Workforce Development (DWD) and other departments that could provide additional funding for child care subsidies.

GOVERNOR

TANF Funding for DWD Programs

a. Programs with Funding Reductions

Due to anticipated growth in the child care subsidy program, the Governor recommended eliminating funding for some programs and reducing funding for others. Programs where new funding would be completely eliminated include: community youth grants; alcohol and other drug abuse (AODA) programs; Wisconsin economic development initiative; legal services; and English for Southeast Asian children. For the community youth grants and AODA programs, funds would be provided in 2001-02 to fulfill contractual obligations from the 1999-01 biennium.

Programs where funding would be reduced include literacy grants and work-based learning programs. The bill would provide funding in 2001-02 for both of these programs to fulfill contractual obligations from the 1999-01 biennium. In 2002-03, the bill would provide funds for new grants at a reduced level. Literacy grants would be reduced from an annual grant of $1,404,100 in the last biennium, to annual grants of $750,000 starting in 2002-03. Work-based learning programs administered by the Governor's Work-Based Learning Board would be reduced from an annual grant of $6,084,500, to annual grants of $2,000,000 starting in 2002-03. The bill would also reduce funds for the Milwaukee Private Industry Council by $500,000 annually.

b. Programs with Funding Increases

The Governor also proposed to increase TANF funding for several programs in DWD, including: (a) W-2 benefits, which would be increased by $1,386,500 in 2001-02 and $2,773,000 in 2002-03; (b) job access loans, which would be increased by $400,000 annually; (c) children first, which would be increased by $1,660,000 annually; (d) state administration of overpayment collections, which would be provided $18,800 in 2001-02 and $25,100 in 2001-02; and (e) the fatherhood initiative, which would be provided $200,000 annually. In addition, community reinvestment funding would increase by $33,583,800 in 2001-02, as reestimated, to fund current obligations for community reinvestment associated with the 1997-1999 W-2 contracts.

c. Programs with no Funding Changes

The Governor proposed keeping funding levels for other expenditures in DWD constant. This includes items such as: (a) performance bonuses, which would be provided $14,772,600 in 2001-02 for bonuses related to the 2000-2001 W-2 contracts as reestimated; (b) the employment skills advancement program, which would be provided $100,000 annually; (c) the workforce attachment and advancement program, which would be provided $10,000,000 annually; and (d) the early childhood excellence program, which would be provided $7,500,000 annually.

TANF Funding in Other Departments

a. Programs with Funding Reductions

The only proposal to reduce the amount of TANF funding being used in another department is the elimination of the community marriage coordinator in the Department of Health and Family Services (DHFS).

b. Programs with no Funding Changes

The Governor also proposed to maintain current funding levels for TANF-funded programs in other departments. In the Department of Public Instruction, the budget would maintain funding for Head Start at $3,712,500 annually and aid to Milwaukee Public Schools at $1,410,000 annually. In the Department of Military Affairs, the Governor would continue to provide $83,200 annually for the badger challenge program. In the Governor's office, the bill would maintain funding of $50,000 annually for a literacy program. In the Child Abuse and Neglect Prevention Board, funds would be maintained at $340,000 annually. In DHFS, the budget would maintain current funding levels for the following programs: (a) early pregnancy identification at $100,000 annually; (b) nutrition services at $1,000,000 annually; (c) immunization services at $1,000,000 annually; and (d) domestic violence services at $1,000,000 annually.

Eligibility Changes for the Employment Skills Advancement Program

The employment skills advancement program awards grants to eligible individuals to be used for tuition, books, transportation or other direct costs of training or education in a vocational training or educational program. The bill would modify three eligibility requirements for the employment skills advancement program to: (a) increase the maximum lifetime grant amount from $500 to $1,000; (b) reduce the recipient's required contribution from 100% to 50% of the amount of the grant; and (c) increase the income limit from 165% to 185% of poverty.

DISCUSSION POINTS

1. During the 1999-01 budget process, there was a large TANF balance. The Legislature used this balance to create new programs, supplement existing programs and to replace GPR for existing programs. For the 2001-03 biennium, availability of TANF funding is much more limited because ongoing costs in the TANF program exceed ongoing revenues and child care costs have increased dramatically in the last two years.

2. The Wisconsin Shares child care subsidy program is projected to have a deficit of $95.1 million over the biennium. Options for changing eligibility requirements to confine the program within available funding are presented in that paper. This paper explores options to reduce or eliminate certain TANF-funded programs to provide additional funds for child care subsidies. This paper also provides options to partially fund the child care subsidy shortfall using the $21,228,700 TANF balance identified in the TANF reestimates paper #1041 and $1,080,600 in newly identified federal child care revenues. Separate papers address the issue of using some of the funds allocated for the local pass-through child care program and programs to improve child care quality and availability to fund child care subsidies.

3. As part of the Governor's proposed budget, several programs were either reduced or eliminated to provide additional funds for child care subsidies. Additional reductions in DWD are possible, including programs in DWD that the Governor partially reduced, as well as programs where funding was added or kept at the base level. The following programs administered by DWD

are discussed in this paper: (a) W-2 benefits; (b) W-2 performance bonuses; (c) community reinvestment funds; (d) job access loans; (e) employment skills advancement program; (f) children first; (g) state administration; (h) work-based learning programs; (i) fatherhood initiative (j) workforce attachment and advancement; (k) early childhood excellence; and (l) literacy grants. This paper does not address benefit programs such as kinship care, caretaker supplement, emergency assistance, state food stamps for legal immigrants, funeral and burial reimbursement, transportation services and the earned income tax credit (EITC), because those allocations are based on projected caseload for those programs.

4. In addition, this paper examines the following programs in other state departments which were expanded in the 1999-01 budget using TANF funds: (a) Head Start in the Department of Public Instruction; (c) early identification of pregnancy program in DHFS; (d) literacy grants in the Governor's office; (e) nutrition services in DHFS; (f) immunization services in DHFS; (g) domestic violence services in DHFS; and (h) the Child Abuse Neglect and Prevention Board in DHFS. This paper does not explore reducing programs in other state departments where TANF replaced GPR that had been used prior to the 1999-01 budget, since doing so would either have a negative GPR impact or would result in cuts into the base of these programs.

Federal Child Care Revenues

5. Action by the Joint Committee on Finance on April 24, 2001, provided funding to address a projected shortfall in the direct child care program for 2000-01. As part of this action, $1,233,300 in CCDF matching funds and $846,800 GPR were provided in 2000-01 in lieu of using $2,080,100 in CCDF discretionary funds as originally proposed by the Governor. This action results in a gain of $2,080,100 in CCDF discretionary funds that can be budgeted in the 2001-03 biennium. Through reestimates of the amount of CCDF funding available, an additional $2,382,000 in untapped FFY 2001 CCDF funds earmarked for child care quality improvement was also identified. These new revenues total $4,462,100. However, the actual net amount of revenue that could be added for child care subsidies totals only $1,080,600 over the biennium, due to an adjustment needed to correct double counting of revenue in past years and a revised federal matching rate. These funds must be obligated by September 30, 2002.

W-2 Benefits

6. The bill would increase the amount available for subsidized employment benefits under the W-2 program by $1,386,500 in 2001-02 and $2,773,000 in 2002-03. The amount of funding provided assumes that the caseload will increase from 6,679 in January, 2001 to 7,651 per month under the next W-2 contracts, which would take effect on January 1, 2002. The administration states that additional funds were added to the benefits allocation to address the possibility of a caseload increase. It is possible that additional funds for benefits would be needed because Wisconsin's unemployment rate has been rising. Unemployment rates in recent months have been as follows: 3.4% in December, 2000, 3.8% in January, 2001, 4.3% in February, 2001, and 4.1% in March, 2001.

7. However, additional funds for benefits may not be needed because the W-2 caseload

has steadied, with a -0.03% average monthly change for January, 2000, through January, 2001. Accordingly, the recommendation to provide increased funds for W-2 benefits could be denied, which could provide funds for child care subsidies totaling $1,386,500 in 2001-02 and $2,773,000 in 2002-03.

8. An argument could be made that any savings resulting from reducing W-2 benefits should instead be used to help create a contingency fund for the W-2 contracts since the Governor proposed elimination of the contingency fund and additional benefit funds may be needed if there is an economic downturn. An alternative to place these funds in a contingency fund is included in Paper #1042.

Performance Bonuses

9. As reestimated, the bill would provide $14,772,600 in 2001-02 for performance bonuses associated with the 2000-2001 W-2 contracts. While the contracts state that these funds will be available, the contracts also contain a clause stating that the obligations of DWD are contingent upon legislative authorization and budget appropriations by the federal government and State Legislature. The Legislative Reference Bureau indicates that this clause is unclear and could be interpreted as either requiring the Legislature to appropriate funds for performance bonuses or as allowing the Legislature to appropriate the funds designated for performance bonuses for other uses. It could be argued that providing sufficient funds for child care subsidies is a higher priority than providing funds for performance bonuses and that funds for performance bonuses should be reduced or eliminated. This could provide up to $14,772,600 for child care subsidies in 2001-02.

10. An argument could be made that these funds have already been contractually obligated to the W-2 agencies and should not be deleted. In addition, it is possible that litigation would result if these funds were reallocated. It could also be argued that all or part of the funds would more appropriately be placed in a contingency fund for the W-2 contracts since they were originally part of the W-2 contracts. An alternative to place these funds in a contingency fund is included in Paper #1042.

Community Reinvestment

11. As reestimated, the bill would provide $33,583,800 in 2001-02 for community reinvestment activities associated with the 1997-1999 W-2 contracts. This is composed of $12,734,800 remaining unspent from the first six months of the contracts, as well as $20,849,000 that has not yet been budgeted for the last six months of the contracts. The bill would also provide $8,309,500 over the biennium for community reinvestment activities associated with the 2000-2001 W-2 contracts. As with the performance bonuses, the contracts contain a clause stating that the obligations of DWD are contingent upon legislative authorization and budget appropriations by the federal government and State Legislature. It could be argued that providing sufficient funds for child care subsidies is a higher priority than providing funds for community reinvestment and that funds for community reinvestment should be reduced or eliminated. This could provide up to $36,353,700 in 2001-02 and $5,539,700 in 2002-03 for child care subsidies.

12. As with performance bonuses, an argument could be made that these funds have already been contractually obligated to the W-2 agencies and should not be deleted. It could also be argued that all or part of the funds would more appropriately be placed in a contingency fund for the W-2 contracts since they were originally part of the W-2 contracts. Alternatives to place these funds in a contingency fund is included in Paper #1042.

Milwaukee Private Industry Council

13. The Governor proposed reducing funding for the Milwaukee Private Industry Council (PIC) by $500,000 annually for a new allocation of $500,000 annually. As discussed in Paper #1044, the Legislative Audit Bureau found that the PIC was not meeting all of its contract requirements and that little is known about the effectiveness of the PIC's work. The remaining $500,000 annual allocation could be reduced or eliminated, which could provide up to $500,000 annually for child care subsidies.

Job Access Loans

14. The Governor proposed adding $400,000 annually for job access loans due to increased demand for the program for a total allocation of $1,000,000 annually. Loans are provided to persons with income up to 115% of the federal poverty level and can be used to: (a) address an immediate financial crisis; (b) obtain or continue employment; or (c) repair or purchase a vehicle for employment. In 1999-00, the budget for the program was $600,000 but actual loans totaled $1,422,000. For 2000-01, the budget is $600,000 but the administration is projecting expenditures of $1,200,000.

15. An argument could be made that the need for child care subsidies outweighs the need to meet demand for job access loans and that funding should be maintained at the current level of $600,000 annually. If the Legislature does not adopt the proposed increase, W-2 agencies would still have job access loan repayments of approximately $200,000 annually that could be used to cover additional loans. Loan repayments are used by W-2 agencies to provide loans in excess of their contractual allocations. Therefore, maintaining current law would actually provide $800,000 annually for job access loans. In addition, W-2 agencies could use their performance bonuses or community reinvestment funds to supplement their allocations for job access loans. This option would provide $400,000 annually for child care subsidies.

16. Conversely, an argument could be made that not approving the Governor's recommended increase would result in a reduced service level since the administration estimates expenditures of $1,200,000 for 2001-02. In addition, it could be argued that the job access loans provide a critical service by providing funds up front to low-income persons trying to enter the workforce.

Employment Skills Advancement Program

17. The Governor proposed to maintain funding for the employment skills advancement

program at $100,000 annually. This program provides grants to eligible individuals to be used for tuition, books, transportation or other direct costs of training or education in a vocational training or educational program. This program has had limited participation. In 1999-00, only $1,000 in grants were awarded. For 2000-01, a total of $1,931 in grants had been awarded as of March, 2001. The Governor proposed modifying the following eligibility requirements for this program to increase participation: (a) increase the maximum lifetime grant amount from $500 to $1,000; (b) reduce the recipient's required contribution from 100% to 50% of the amount of the grant; and (c) increase the income limit from 165% to 185% of poverty.

18. While the Governor's proposal to relax the eligibility requirements may increase participation in the program, it could be argued that the eligibility requirements for the program would remain too onerous to encourage additional participation. If the eligibility requirements were significantly relaxed to encourage participation, the cost of the program could increase dramatically. In addition, there are a wide variety of financial aid programs available from the federal government and through the Higher Education Aids Board, which have greater access to funding and less stringent eligibility requirements. Therefore, it could be argued that the employment skills advancement program should be eliminated and the savings should be allocated to child care subsidies.

19. Conversely, concerns have been raised that the W-2 program has not had enough of a commitment to higher education to enable participants to move out of poverty and that the employment skills advancement program should be retained. Participation could increase with the Governor's proposed statutory changes and with additional publicity performed by the W-2 agencies.

Children First

20. The children first program provides job training and work experience to low-income or underemployed noncustodial parents to help these parents meet their child support financial obligations. A noncustodial parent who has no current means of meeting a child support obligation may be ordered by a court into the program. Children first participants often face significant barriers to meaningful employment, including low educational achievement, poor work histories, alcohol and/or drug abuse problems, and criminal records. The program is administered through partnerships between county child support agencies, W-2 agencies, and the county or tribal judicial system. It currently operates in 43 counties and with the Lac du Flambeau tribe. DWD reimburses county child support or W-2 agencies at a rate $400 per participant (up to $400 per participant under the bill).

21. The bill would increase the amount of funding from the TANF program dedicated to the children first initiative from the current level of $1,140,000 per fiscal year to $2,800,000 per year during the 2001-03 biennium. The additional dollars would be used to fund the participation of 7,000 additional noncustodial parents per year and expansion of the program into Ashland, Brown, Columbia, Florence and LaCrosse counties. In calendar year 2000, the program served a total of 4,960 participants. The Committee could decide that child care subsidies are a higher priority than expanding the children first program. If the Committee chooses not to implement the proposed

expansion of the program or chooses to implement it at a reduced level, the savings could be used to fund child care subsidies.

22. However, concerns have been raised about the need to provide additional services to noncustodial parents to enable them to provide enhanced financial support to their children. Increased child support payments could help some families achieve self-sufficiency and be less reliant on public assistance programs.

State Administration

23. Funds could be reallocated from the state administration allocation to the child care subsidy program. The Governor's budget provided $18,800 in 2001-02 and $25,100 in 2002-03 in TANF funds for 0.5 FTE for the public assistance collections unit as discussed in Paper #1053. Because the public assistance collections unit generates program revenue to cover the cost of the position, TANF funds do not need to be used. Instead, these funds could be allocated to child care subsidies with no impact on the public assistance collections unit.

Work-Based Learning Programs

24. The Governor proposed reducing TANF funding for work-based learning programs administered by the Governor's Work-Based Learning Board. These funds are used for state-regulated youth apprenticeship programs and other local work-based learning programs for youth from families with income levels up to 200% of the federal poverty level. The Board plans to serve a total of 5,300 youth from Spring, 2000, through December 31, 2001: 800 in youth apprenticeship programs and 4,500 in work experience programs.

25. The current contract terms run through December 31, 2001, and include $7,399,000 in funding. For 2001-02, the Governor's budget would provide $6,399,000 for current contractual obligations. For 2002-03, the Governor would provide $2,000,000 for new grants.

26. The proposed $2,000,000 allocation for work-based learning programs in 2002-03 could be further reduced or eliminated. A reduction in these programs could provide up to $2,000,000 for child care subsidies. It could be argued that the Governor's Work-Based Learning Board has other GPR and program revenue that would allow some of these services to continue. The Governor proposed continuing $3.1 million annually for local youth apprenticeship grants, $300,000 annually for youth apprenticeship training grants, and $2.3 million annually for school-to-work.

27. Conversely, it could be argued that work-based learning programs should not be further reduced because they provide preventive services to youth that will make them less reliant on public assistance in the future.

Fatherhood Initiative

28. A separate paper has been prepared on the proposed fatherhood initiative, which would be provided $200,000 annually under the bill. If the Committee chooses not to implement the

proposed program or chooses to implement it at a reduced level, the savings could be used to fund child care subsidies.

Workforce Attachment and Advancement

29. The bill would maintain funding of $10,000,000 annually for the workforce attachment and advancement program. This program provides funds to workforce development boards and W-2 agencies for post-employment services to assist with job retention; incumbent worker training to promote job advancement and increased earnings; services to employers to retain workers and provide career progression paths; job readiness and placement services to unemployed persons; and basic skills development. Services are provided to individuals with income at or below 200% of the federal poverty level. As of the end of December, 2000, there had been 1,117 participants, including 835 active cases. The highest number of participants has been in the southeast workforce development area representing 23.1% of the caseload. This area includes Kenosha, Racine and Walworth counties. Conversely the Milwaukee region represented only 5% of the caseload. As of April, 2001, there were less than 100 cases in Milwaukee County. In addition, a total of $4.9 million out of $19.7 million had been spent at the end of February, 2001.

30. The program began in January, 2000. Current contracts are for the period of January 1, 2000, through December 31, 2001, and total funding available over the contract term is $19,700,000. For 2001-02, the funding in the Governor's bill would provide $9,641,000 for current contractual obligations associated with the 1999-01 biennium and $359,000 for new grants. For 2002-03, the bill would provide an additional $10,000,000 for new grants.

31. It could be argued that the services being provided through the workforce attachment and advancement program are already provided through the workforce investment act (WIA) and should also be part of the basic services performed by the W-2 agencies. In addition, given the low caseload in calendar year 2000 and the slow rate of initial spending, $10,000,000 in annual funding may not be necessary for the program. Accounting for the fact that the program took awhile to be fully implemented, a reasonable estimate is that the program could be cut in half and still serve interested participants. New grants could be reduced to $5,000,000 annually, which would save $5,000,000 in 2002-03 that could be used for child care subsidies.

32. Alternatively, funds for the program could be eliminated and the W-2 agencies could implement the program using funds in their 2001-03 allocations for administration and services. This option would save $359,000 in 2001-02 and $10,000,000 in 2002-03 that could be provided for child care subsidies.

33. DWD argues against reducing or eliminating funding for this program because a primary goal of the Department is to help low-income families attach and advance in the workforce. Without this program, W-2 agencies may not have sufficient funds to provide these services in addition to their other responsibilities.

Early Childhood Excellence Initiative

34. The bill would maintain funding of $7,500,000 annually for the early childhood

excellence initiative. This program provides grants to develop early childhood centers for children under age five who come from families with incomes at or below 200% of the federal poverty level. The centers provide child care, educational services, outreach and training for parents of children served by the center and training for child care providers. A local matching contribution of 25% is required. Those who receive training under the grant may in turn apply for a grant to establish an early childhood program. A total of 2,300 participants are projected to be served in 2000-01, which represents a cost of approximately $3,300 per participant. Families who participate in the program are eligible to receive child care subsidies to participate in the program and must pay the applicable copayment.

35. There are currently 18 early childhood excellence centers. Current grants are for the period of July 1, 2000, through December 31, 2001. For 2001-02, the funding in the Governor's bill would provide $7,500,000 for current contractual obligations. For 2002-03, the bill would provide an additional $7,500,000 for new grants.

36. While the early child excellence program provides child care services to participants, the state also provides child care subsidies to the parents who attend the centers, which makes the total cost of the centers much higher. The average annual subsidy cost of providing child care subsidies to 2,300 participants is $12.8 million in 2001-02 and $13.1 million in 2002-03. Adding the child care subsidy cost onto the cost of the early childhood excellence centers increases costs from $7.5 million annually to a total cost of over $20 million annually. If the $7,500,000 annual allocation were just provided for child care subsidies, approximately 1,300 participants could be served per month. It can also be argued that the early childhood excellence initiative is duplicative of the Head Start program. Converting this program to child care subsidies would provide $7,500,000 in 2002-03.

37. However, some may argue that it is more important to provide funds to the early childhood excellence centers than to use the funds for subsidies because models of high quality early childhood care programs need to be developed throughout the state. Research has shown that proper stimulation and nutrition in the early years can have a long-term impact on a child's educational, social and emotional development and the absence of proper stimulation or negative experiences can have detrimental effects.

Literacy Grants -- DWD

38. The Governor proposed reducing TANF funding for literacy grants in DWD. The 1999-01 budget included $1,404,100 annually for formula-based literacy grants, workplace literacy grants and child and family tutoring grants for families with income at or below 200% of the federal poverty level. In 1999-00, 1,079 participants were served. The current grants end on December 31, 2001. For 2001-02, the Governor's budget would provide $1,375,800 for current contractual obligations. For 2002-03, the Governor would provide $750,000 for new grants.

39. The proposed $750,000 allocation for literacy grants in 2002-03 could be further reduced or eliminated. A reduction in this program could provide up to $750,000 for child care subsidies. It could be argued that literacy services are already provided by the W-2 agencies through

their administration and services allocations and that the W-2 agencies would be able to absorb the participants being served by the literacy grants. For calendar year 2000, W-2 agencies spent $4.5 million on education services, a portion of which was spent on literacy services. In its audit of the W-2 program, the Legislative Audit Bureau found that in calendar year 2000, literacy services were provided to approximately 2,700 participants, which represents approximately 7% of recipients during that time period.

40. It could also be argued that funds for literacy grants should be retained because the W-2 agencies would be unable to provide sufficient focus on literacy with base funding from the W-2 contracts.

Head Start

41. The Governor proposed maintaining TANF funding for the Head Start supplement program in the Department of Public Instruction at $3,712,500 annually. For 2000-01, the program's goal is to serve 728 children. Prior to the 1999-01 biennium, the program was funded with approximately $4,950,000 GPR annually. As part of the 1999-01 budget, annual funding for the program was increased by $2,475,000 to $7,425,000. A total of $1,237,500 in TANF funding was used to replace GPR funds that had been previously used and $2,475,000 in TANF funding was provided to expand the program.

42. An option would be to eliminate the $2,475,000 annual increase that was provided in the 1999-01 budget. This would result in a $4,950,000 annual allocation for the program and would result in a $2,475,000 savings in TANF funds annually that could be used for child care subsidies. It could be argued that similar services would continue to be provided to these children under the child care subsidy program.

43. However, some may argue that TANF funding should not be reduced for the program, because services would be eliminated for approximately 485 children per month. In contrast, $2,475,000 for child care subsidies could only fund approximately 400 children per month.

44. Under the state's two-thirds funding calculation for school aids, if funding for a categorical aid such as Head Start is decreased, there is an increase in general school aids equal to one-third of the decrease in categorical aid in order to maintain two-thirds funding of partial school revenues. If Head Start were reduced by $2,475,000 annually, then a corresponding increase in general school aids of $835,000 GPR annually would be required, meaning that the net amount available for child care subsidies would be $1,640,000 annually.

Early Identification of Pregnancy

45. The Governor also proposed maintaining TANF funding for the early identification of pregnancy program in DHFS at $100,000 annually. This allocation was added in the 1999-01 biennium for outreach activities to make low-income pregnant women aware of the importance of early prenatal and infant health care and of the availability of medical assistance and other programs to support prenatal and infant care.

46. Due to a delay in program implementation, no funds were spent for the program in 1999-00. DHFS indicates that the $100,000 for 2000-01 has been fully committed to: (a) inform low-income women who suspect they may be pregnant of the services available to them; (b) promote early confirmation of pregnancy; and (c) facilitate access to pregnancy testing services and appropriate care.

47. For 2001-02, the Governor's budget, as reestimated by this office, would provide $50,000 for new grants. For 2002-03, the Governor's budget would provide $100,000 for new grants. As a result, deleting the TANF funds for this program would free up $50,000 in 2001-02 and $100,000 in 2002-03 that could be used for child care subsidies.

48. However, DHFS is currently waiting for approval of a waiver to use medical assistance funds for family planning services for low-income women. The intent is to provide family planning services under MA to women between the ages of 14 and 44, whose income is below 185% of poverty, including single women, who are currently not eligible for these services. The waiver program could not be used for outreach activities. Therefore, DHFS officials indicate that the early identification of pregnancy outreach funding is necessary to reach additional women who could be served upon approval of the waiver.

Literacy -- Governor's Office

49. The Governor proposed maintaining TANF funding for a literacy program in the Governor's office. A total of $25,000 would be provided to continue funding 30% of a literacy advocate in the Governor's Office and $25,000 would be provided to continue support for literacy aids in libraries. Prior to the 1999-01 biennium, the literacy advocate was funded with GPR only, while the funding for literacy aids to libraries represented increased funding. No funds were spent for the program in 1999-00 and the position authority has not been used.

50. It could be argued that the annual allocation of $25,000 added for literacy aids to libraries in the 1999-01 budget could be reduced without any substantial impact because the amount is minimal and literacy services are already provided by W-2 agencies through their administration and services allocation. The resulting savings of $25,000 per year could be provided for child care subsidies. In addition, the authority for 0.3 FTE could be deleted.

51. However, it could be argued that funds should be retained for literacy aids because W-2 agencies do not have sufficient funds in the base W-2 contracts for literacy services.

Nutrition Services

52. The Governor proposed maintaining TANF funding for nutrition services administered by DHFS at $1,000,000 annually. This funding is provided for nutrition education services to persons enrolled in the women, infants and children (WIC) supplemental food program. As part of the 1999-01 budget, $500,000 in TANF funds was provided to expand the program and $500,000 was used to replace GPR that had been previously budgeted for this purpose.

53. The TANF funds support nutrition education services for 75 permanent and 172

traveling clinics. In 1999-00, approximately $500,000 in TANF served 14,338 participants. In addition, federal WIC funds were used to provide these services to 168,126 participants in 1999-00.

54. The grants for the nutrition services program are awarded on a calendar year basis. For 2001-02, the Governor's budget, as reestimated by this office, would provide $500,000 for new grants. For 2002-03, the Governor's budget would provide $1,000,000 for new grants.

55. An option would be to delete the $500,000 added in 1999-01 to expand the program and instead use these funds for child care subsidies. Deleting the TANF funds for this program would free up $250,000 in 2001-02 and $500,000 in 2002-03 that could be used for child care subsidies.

56. However, reducing TANF funds would reduce nutritional services available to low-income women and children, particularly those served through the 172 traveling clinics which, according to DHFS, would be the most affected by a reduction in funding.

Immunization Services

57. The Governor also proposed maintaining TANF funds for immunization services at $1,000,000 annually. These funds are used for a variety of support activities, such as establishing and maintaining an immunization record system, notifying parents of children who are behind schedule to receive immunizations, identifying the transportation needs of clients and assisting clients in obtaining accurate records of previous immunizations. In 1997-98, medical assistance funding of $900,000 and matching GPR funding of $100,000 were provided on a one-time basis to support immunization services for a two-year period. In 1999-01, the one-time funds were replaced with TANF funding, and an additional $500,000 TANF funds was provided to expand the program to $1,000,000 per year.

58. The grants for the immunization services program are awarded on a calendar year basis. For 2001-02, the Governor's budget, as reestimated by this office, would provide $500,000 for new grants. For 2002-03, the Governor's budget would provide $1,000,000 for new grants.

59. An option would be to delete the $500,000 added in 1999-01 to expand the program and instead use these funds for child care subsidies. Deleting the TANF funds for this program would free up $250,000 in 2001-02 and $500,000 in 2002-03 that could be used for child care subsidies.

60. However, eliminating these funds could impact local health departments' abilities to track immunizations, and to ensure that children stay on schedule and obtain the recommended immunizations.

Domestic Violence Services

61. The Governor proposed maintaining TANF funds for domestic violence services at $1,000,000 annually. DHFS provides funding to nonprofit and tribal domestic abuse programs in the state. Current funding for these programs includes $5,070,200 GPR, $1,126,200 in federal

Family Violence Prevention and Services Act funding, $1,000,000 TANF and $300,000 PR from court assessments on perpetrators of domestic violence. The TANF funds were added as part of the 1999-01 budget to augment the existing domestic abuse services program.

62. The $1,000,000 TANF, as budgeted in 2000-01, funds 35 domestic abuse programs across the state, including nonprofit shelters, outreach programs and tribal programs. The TANF grants support several services at these agencies, including: (a) services for children who witness domestic violence; (b) legal assistance to victims in need of legal protection and other court action; (c) specialized training and assistance for domestic abuse service providers; and (d) programs aimed at assisting victims find employment and move into safe and affordable housing. These grants are awarded on a calendar year basis. In calendar year 2000, agencies receiving TANF funds provided TANF-funded services to 5,100 victims and children. For 2001-02, the Governor's budget would provide $500,000 for existing contractual obligations. In addition, the budget would provide funds for contract renewals totaling $500,000 in 2001-02 and $1,000,000 in 2002-03.

63. TANF funding for domestic violence services could be reduced or eliminated in order to provide funds for child care subsidies. Doing so would restore the program to its level before 1999-01 and would still allow $6.5 million in funds to support domestic abuse programs. Deleting the TANF funds for this program would free up $500,000 in 2001-02 and $1,000,000 in 2002-03 that could be used for child care subsidies.

64. If these TANF funds were no longer available for grants for domestic abuse services, the total funding for local domestic agencies would be reduced by 13%. In addition, for the average agency that receives TANF funds, those funds represent an estimated 20% of the agency's total revenue from DHFS. As a result, the TANF-funded services may not be available to victims and children without the TANF grant award.

Child Abuse and Neglect Prevention Board

65. The Governor also proposed maintaining TANF funds for the Child Abuse and Neglect Prevention Board at $340,000 annually. These TANF funds were provided as part of the 1999-01 budget to augment funding for 17 existing family resource centers. Each center receives an annual $20,000 TANF grant to increase direct services by increasing staff hours, and to do one or more of the following: (a) provide additional parenting skills training; (b) increase the capacity for fathers to support their children emotionally; and (c) promote parental access to their children by occasionally acting as a host site for supervised visitation. This TANF funding was allocated to the Board to allow the Board to maintain total annual grant awards of $100,000 to these family resource centers. In 1998, the Board reduced the annual awards to the 17 centers by $20,000 each to reflect a reduction in federal funding the Board received. The TANF funds were provided to replace the lost federal funds and reestablish the annual award amount at $100,000.

66. The family resource center grants (including the TANF funds) are awarded on a fiscal year basis. For 2001-02, the Governor's budget would provide $340,000 to maintain the current grant level for these centers.

67. The Committee could consider reducing or eliminating the $340,000 in TANF funds for the Board. This action would reduce the annual grants to family resource centers to $80,000 and could provide $340,000 in both 2001-02 and 2002-03 for child care subsidies. However, the Board's staff indicate that family resource centers require an operating budget of $300,000 in order to achieve positive outcomes. The grant awards from the Board provide base funding for these centers and allow the centers to leverage additional funds. A one-fifth reduction in the grants awarded by the Board to these centers would decrease staffing and the ability to offer services to families.

Summary of Alternatives

68. This paper presents four alternatives: (a) approve the Governor's recommended funding levels for the programs described in this paper; (b) increase funding for child care subsidies using funding available in the TANF balance; (c) increase funding for child care subsidies using newly recognized CCDF discretionary funds; and (d) reduce funding for some combination of programs in order to provide increased funds for child care subsidies. Since any number of combinations of reductions could be made, a fiscal effect is not shown for program reductions.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide funds from the TANF program for the programs described in this paper and to make eligibility changes to the employment skills advancement program.

2. Increase funding for child care subsidies in the direct child care program by $21,228,700 FED using funding available in the TANF balance.

Alternative 2	FED
2001-03 FUNDING (Change to Bill)	$21,228,700

3. Increase funding for child care subsidies in the direct child care program by $1,080,600 FED in 2001-02 by utilizing untapped CCDF funds earmarked for child care quality improvement in FFY 2001, which are recognized in Paper #1041.

Alternative 3	FED
2001-03 FUNDING (Change to Bill)	$1,080,600

4. Reduce funding for any combination of the following TANF programs, increase funding for child care subsidies by the same amount and eliminate 0.3 FTE position authority in the Governor's Office if funding for the literacy program in the Governor's Office is deleted.

Program	Potential Reduction 2001-02	2002-03
W-2 Agency Contract Allocations		
Subsidized Employment Benefits	$1,386,500	$2,773,000
Local Agency Performance Bonuses	14,772,600	0
Community Reinvestment-W-2 Agencies	36,353,700	5,539,700
Milwaukee Private Industry Council	500,000	500,000
Other Benefits		
Job Access Loans	$400,000	$400,000
Employment Skills Advancement	100,000	100,000
Child Support Related to W-2		
Children First	$1,660,000	$1,660,000
Administrative Support		
State administration- fraud reduction	$18,800	$25,100
Other Support Services		
Work-Based Learning Programs	$0	$2,000,000
Fatherhood	200,000	200,000
Grant Programs		
Workforce Attachment and Advancement	$359,000	$10,000,000
Early Childhood Excellence	0	7,500,000
Literacy-DWD	0	750,000
Expenditures in Other Programs		
Head Start	$2,475,000	$2,475,000
Early Pregnancy Identification	50,000	100,000
Literacy-Governor's Office	25,000	25,000
Nutrition Services	250,000	500,000
Immunization	250,000	500,000
Domestic Violence	500,000	1,000,000
Child Abuse and Neglect Prevention Board	340,000	340,000
Total Expenditures	$59,640,600	$36,387,800
(Head Start GPR Offset	$825,000	$825,000)

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