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November 12, 2014

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Expenditure Plan for Income Augmentation Funds -- Agenda Item IV

On October 1, 2014, the Joint Committee on Finance received a proposal from the Department of Administration (DOA) to allocate federal income augmentation revenues pursuant to ss. 46.46(2) and 48.567(2) of the statutes. Income augmentation revenues are federal medical assistance (MA) and Medicare payments and payments the state receives for child welfare services under Title IV-E of the federal Social Security Act as a result of activities the Department of Health Services (DHS) conducts to identify expenditures made by, or on behalf of local governments that are eligible for federal reimbursement under these three federal programs. DHS submits claims to the appropriate federal program for reimbursement of the federal share of these expenditures. Since the federal share of these costs was initially paid with state and local funds, the state may use revenue from the federal reimbursements for any purpose.

Currently, all income augmentation revenue the state receives is based on claims DHS submits under the MA program. These moneys are initially credited to a federal appropriation in DHS [s. 20.435(8)(mb)], and then transferred to a program revenue (PR) appropriation in the Department of Children and Families (DCF) [s. 20.437(3)(kp)].

Under the current proposal, the administration identified amounts DHS had collected and reconciled in the 2013-14 fiscal year ($19,132,739) and federal income augmentation revenues the state received and budgeted in prior years that were not expended ($627,279), so that a total of $19,760,018 is available to fund current budgeted commitments and new initiatives, or to lapse to the general fund.

On October 21, 2014, the Co-Chairs notified the DOA Secretary that the Committee would meet to consider the administration's plan.

BACKGROUND

Revenue Sources. In 2013-14, the state claimed federal income augmentation funds for two MA-supported services for children -- HealthCheck services provided by residential care centers (RCCs) and targeted case management services.

The DOA plan includes $8,581,800 in federal MA funding the state claimed for services provided to MA-eligible children by RCCs. RCCs are private, nongovernmental entities that provide custodial care and treatment for children, youths, and young adults. The services provided by RCCs are performed primarily by youth care workers and social workers. In addition, RCCs provide some services performed by medical professionals, such as psychiatrists and psychologists.

Second, the DOA plan includes $10,550,900 in federal MA funds the state claimed for targeted case management (TCM) services, which counties provide to children who are in out-of-home care and whose care is not eligible for reimbursement under Title IV-E of the Social Security Act.

For TCM services counties and the state provide after January 1, 2014, the state no longer submits claims for federal reimbursement for TCM services. One reason the administration discontinued claiming federal MA funds for TCM services is that, on January 1, 2014, the state began to implement a new MA initiative to provide comprehensive, MA-funded services to children in out-of-home care settings, other than children in RCCs, through a medical home model. Under this initiative, which is called Care4Kids, DHS pays a health care provider (Children's Hospital of Wisconsin) to provide a comprehensive set of MA-funded services to this population, including case management services. Initially, DHS expects that approximately 2,600 children in out-of-home care in Kenosha, Milwaukee, Ozaukee, Racine, Washington and Waukesha Counties will be enrolled, which represents nearly half of the statewide number of children in out-of-home care (5,500). DHS will pay Children's Hospital for providing these case management services that were previously provided by county staff, which will reduce the amount of case management work county staff provide on behalf of these children.

In addition, the administration believes that implementation of the medical home model will make it difficult for the state to continue to claim MA funds for TCM services provided by counties where children in foster care are not receiving services through the medical home. These reasons include difficulty in generating a statistically valid sample of TCM services from the remaining counties and in establishing a methodology that is no longer based on statewide county staff costs.

Previous Commitments. Under the administration's plan, approximately $10.0 million of federal income augmentation funds would be allocated to support administrative costs and to satisfy requirements of prior legislation as follows:

- $7.3 million to transfer to the MA trust fund to support MA benefits costs, as budgeted in 2013 Wisconsin Act 20 (the 2013-15 biennial budget act);

- $1.0 million to counties to support administrative costs of claiming MA-eligible HealthCheck services provided by RCCs;

- $1.4 million to fund DHS and DCF income augmentation administrative expenses;

- $0.3 million to the contracted firm that assisted the state in generating these income augmentation funds pursuant to s. 46.46(1); and

- $0.3 million to support the DHS Office of the Blind and Visually Impaired, as budgeted in Act 20.

Uncommitted Funding. Under the administration's plan, the remaining revenue ($9.7 million) would be allocated as follows:

- $9.0 million would be used by DCF for the following purposes: (a) $4.7 million to pay a federal penalty for failing to meet system requirements to verify income and eligibility for the temporary assistance for needy families (TANF) program for fiscal year 2002-03; (b) 2.6 million to fund an offender reentry demonstration program in the City of Milwaukee; and (c) $1.7 million to continue funding a functional family therapy program targeting high-risk youth in the City of Milwaukee (the Safe Milwaukee Initiative), through December, 2017; and

- $0.7 million to lapse to the general fund to meet DCF agency lapse requirements for both years of the 2013-15 biennium, pursuant to Act 20.

It is the uncommitted amount ($9.7 million) that is available for allocation by the Committee. Any income augmentation revenue that is not budgeted for specified purposes by the Legislature, or by the Committee under the process specified under ss. 46.46 and 48.567 of the statutes, is deposited to the general fund.

ANALYSIS

SAFE Milwaukee Initiative. DCF proposes to provide $850,000 in calendar years 2016 and 2017 ($1.7 million in total) to continue funding the SAFE Milwaukee initiative through December, 2017.

SAFE Milwaukee is a short-term, behaviorally oriented family therapy program targeted to youth between the ages 10 and 18 with severe behavior problems who are either chronically delinquent or at risk for delinquency. Academic studies indicate that such therapy reduces recidivism and drop-out rates and is more cost effective when compared to other juvenile offender programs. The SAFE Milwaukee program began in July, 2014, and there are currently 30 cases participating.

Services are provided through the United Neighborhood Centers of Milwaukee (UNCOM), which are located in Milwaukee neighborhoods with youth at high risk of delinquencies. UNCOM clinicians are trained in functional family therapy and are hired and supervised by St. Aemilian-Lakeside, a local mental health provider. Referrals are made to

UNCOM centers through the Milwaukee Police Department, the court system, child welfare agencies, and neighborhood centers.

SAFE Milwaukee was originally funded through December, 2015, in the annualized amount of $850,000 by the Committee's approval of the 2013 income augmentation plan on January 8, 2014. The Committee directed DCF to submit a report evaluating the program on or before April 30, 2015. DCF indicates that the requested level of funding would support services for 80 to 100 families annually. DCF would evaluate the program through measures of crime, delinquency, and community economic viability.

The Committee could approve the request to allocate $1,700,000 in income augmentation revenues to support the SAFE Milwaukee initiative through December, 2017 (Alternative 2.a).

Alternatively, the Committee could deny income augmentation funding for the SAFE Milwaukee initiative (Alternative 2.b). As discussed above, income augmentation funding from targeted case management will no longer be claimed. Thus, income augmentation revenue likely would provide one-time funding for a program that needs an ongoing revenue source. The administration could use DCF's April, 2015, report to determine if the SAFE Milwaukee program should continue after December, 2015, as a permanent program under a separate bill or during the 2017-19 biennial budget deliberations.

Income Eligibility Verification System (IEVS) Penalty. DCF proposes to use $4,730,300 to pay a penalty levied upon the TANF block grant for failure to comply with IEVS data matching requirements.

IEVS is an automated computer system mandated by federal law that is used to match information between government databases. IEVS verifies the accuracy of financial information provided by applicants for use in making eligibility determinations for federally funded assistance programs. IEVS investigates whether applicants receive benefits they are not entitled to receive. States may be penalized under the Social Security Act and TANF regulations for not timely performing IEVS matching.

Information verified under IEVS includes social security numbers and supplemental security income payments from the U.S. Social Security Administration, state wage and unemployment compensation information collected by the Department of Workforce Development (DWD), unearned income from the Internal Revenue Service (IRS), and immigration status from the Immigration and Naturalization Service.

The Legislative Audit Bureau determined in its 2004 single audit report that Wisconsin failed to meet IEVS requirements for the TANF program. DWD, which administered TANF at the time, was notified that the state was subject to a one-time penalty which would reduce available funding under the TANF block grant by $4,730,300. After the State's dispute of the penalty was denied, Wisconsin submitted an approved corrective compliance plan under which no penalty would be imposed if Wisconsin corrected the IEVS violation on or before September 30, 2007.

Despite the corrective compliance plan, the Legislative Audit Bureau's 2009 single audit report identified that Wisconsin was not properly conducting IEVS data matching of unearned income with the IRS. Further, county and Wisconsin Works (W-2) agencies did not timely follow up on data matches of wage information and unemployment insurance from DWD. As a result, the penalty was imposed on the TANF block grant for federal fiscal year 2015. An additional penalty of $4,763,000 may be imposed unless the State complies with a new, approved corrective action plan on or before April 30, 2016.

Wisconsin is required to replace the $4,730,300 penalty with state funds. These funds will not count towards maintenance-of-effort requirements under the Social Security Act and TANF regulations. Failure to replace the federal penalty with State funds in the succeeding fiscal year may result in an additional penalty of up to two percent of the TANF block grant (approximately $6.3 million) plus the amount of funds the State failed to replace. Under the 2014 income augmentation plan, DCF proposes to use $4,730,300 to cover the IEVS penalty in federal fiscal year 2016.

The Committee could approve the request to provide $4,763,000 to cover the TANF penalty (Alternative 3.a). Alternatively, the Committee could also require quarterly reports from DCF from January, 2015, through April, 2016, to update the Committee of DCF's progress under the corrective action plan (Alternative 3.b). Such reports could be required on or before the end of the month following the calendar quarter (April 30, July 31, October 31, January 31, and April 30).

Milwaukee Offender Reentry Demonstration Program. DCF proposes to use $2,608,000 for a new Milwaukee demonstration program for incarcerated parents whose children are in the child welfare system or are in W-2 programs.

The Department of Corrections currently provides reentry services to inmates being released to parole or extended supervision. Prior to release, Corrections utilizes a risk assessment tool to develop a case plan for the inmate's treatment and programming needs, such as education, employment, and substance abuse treatment. In addition, inmates complete a Release Plan Information form with information about their proposed residence plan, current and potential employment, financial and benefit information, health needs, education and treatment needs, and transportation and clothing needs upon release. A social worker may add comments or concerns relating to the inmate's plan, which is sent to the inmate's community corrections agent. Approximately 60 days prior to the inmate's release, the community corrections agent will schedule a conference call or visit with the inmate and social worker, to review the release plan.

Upon release, the Division of Community Corrections provides residential and non-residential programs, such as halfway houses, day reporting centers, cognitive-behavioral treatment, substance abuse treatment, sex offender treatment, emergency services (for example, housing and meals), drug testing, employment services, and family counseling.

The purpose of the proposed offender reentry demonstration program would be to aid the successful community transition out of incarceration for incarcerated parents whose children are in the child welfare system or are in W-2 programs from three Milwaukee-area minimum-supervision facilities. The demonstration project would employ best practices from the fields of corrections reentry and workforce development, with an emphasis on family reunification. Services provided include: substance abuse treatment, transitional jobs employment services, mentoring, mindfulness training and cognitive behavioral therapy, community building workshops, and mathematics and GED education. Pilot programs providing comprehensive and coordinated reentry strategies in other states have shown success in improved reintegration across a broad range of outcomes in addition to recidivism, such as employment, substance abuse, and health.

The proposed program would identify and recruit participants at the Marshal Sherrer, Felmers Chaney, and Milwaukee Women's Correctional centers to begin services approximately 18 months prior to reentry. After release, participants could remain involved for up to one year (or three years as needed).

DCF's proposed funding would cover a 32-month period beginning May 1, 2015, through December 31, 2017. Funding would annually support: (a) 1.0 FTE project manager ($78,000); (b) 10.0 FTE case managers having caseloads between 10 and 15 participants ($650,000); (c) subcontracts for external services, such as mentoring, training, and workshops ($100,000); and (d) impact evaluation to determine the effectiveness of the program ($100,000).

The Committee could approve the request to allocate $2,608,000 in income augmentation revenues to support the offender reentry demonstration program through December, 2017 (Alternative 4.a). The program could improve offender reunification efforts, increase the likelihood of employment and child support payments, and decrease recidivism.

Alternatively, the Committee could deny income augmentation funding for the offender reentry program (Alternative 4.b). As discussed above, funding from targeted case management will no longer be claimed. Thus, income augmentation revenue likely would provide one-time funding for a program that needs an ongoing revenue source. The administration could introduce a separate bill which identifies an ongoing revenue source or could create the program as part of the 2015-17 biennial budget process.

Lapse to the General Fund. Provisions of 2013 Act 20 require the DOA Secretary to lapse to the general fund from unencumbered balances of GPR and PR appropriations from specified executive branch state agencies, other than sum sufficient and FED appropriations. The total amount of the lapses is $38,176,100 annually. Pursuant to Act 20, DCF's portion of this lapse is $592,200 annually.

In approving the 2013 income augmentation plan on January 8, 2014, the Committee modified the plan to lapse $1,396,600 of income augmentation revenue to the general fund in fiscal year 2013-14 rather than the requested $1,184,400. Further, the Committee specified that only $592,200 instead of the requested $1,184,400 would satisfy the lapse required by 2013 Act 20 for DCF. DCF was required to lapse an additional $592,200 in 2014-15.

The 2014 income augmentation plan would lapse $734,276 of income augmentation revenues to the general fund. The amount of $592,200 would satisfy DCF's portion of the required lapse under Act 20 for 2014-15. The remaining $142,076 is an additional lapse.

The Committee could approve the lapse of $734,276 of income augmentation revenues to the general fund to satisfy DCF's lapse requirement under Act 20 (Alternative 5.a.).

Alternatively, the Committee could specify that any amount of income augmentation revenue that is lapsed to the general fund not be counted in meeting DCF's Act 20 lapse requirement (Alternative 4.b.). Under this alternative, the Administration would have to identify other DCF funds to lapse to the general fund in the amount of $592,200 during the 2013-15 biennium. This process could result in finding reductions that are not currently anticipated by DCF. This alternative would increase estimated lapses to the general fund, resulting in an additional one-time increase to the general fund in the amount of the income augmentation revenue lapse.

Other Alternatives. In considering this request, the Committee may wish to note that the actual 2013-14 ending general fund balance was $207 million below the budgeted amount. Therefore, it may be desirable to lapse additional income augmentation revenues to the general fund instead of creating new expenditure commitments.

As discussed above, the Committee could deny the proposal with respect to the SAFE Milwaukee Initiative (Alternative 2b) or the offender reentry demonstration program (Alternative 4b) and lapse the associated funding amounts to the general fund. If both of these items were denied, the general fund lapse amount would increase by $4,308,000 compared to the request.

Finally, the Committee could modify the 2014 income augmentation plan to allocate funding for the SAFE Milwaukee initiative, IEVS penalty, offender reentry demonstration program, lapses to the general fund, and any other state program in amounts that the Committee deems appropriate.

ALTERNATIVES

1. Approve the request to allocate $9,772,576 in income augmentation revenue as follows: (a) $1,700,000 for the SAFE Milwaukee Initiative; (b) $4,730,300 to pay the TANF penalty levied for IEVS requirements in 2015-16; (c) $2,608,000 for the Milwaukee offender re-entry demonstration program; and (d) $734,276 to lapse to the general fund.

SAFE Milwaukee Initiative

2.a. Approve the request to allocate $1,700,000 in income augmentation revenues for the SAFE Milwaukee initiative through December, 2017.

2.b. Deny the request to allocate $1,700,000 in income augmentation revenues for the SAFE Milwaukee initiative and lapse $1,700,000 to the general fund.

IEVS Penalty

3.a. Approve the request to allocate $4,730,300 in income augmentation revenue to replace decreased funding under the TANF block grant resulting from failure to meet IEVS requirements to verify applicant income and eligibility.

3.b. Approve the request and, in addition, direct DCF to evaluate and quarterly report to the Joint Committee on Finance on progress under the State's corrective action plan from January, 2015, through April, 2016. Require the reports to be submitted by the last day of the month following the close of each calendar quarter. The first report would be due on April 30, 2015.

Offender Reentry Demonstration Program

4.a. Approve the request to allocate $2,608,000 in income augmentation revenues to support the offender reentry demonstration program through December, 2017

4.b. Deny the request to allocate $2,608,000 in income augmentation revenues to support the offender reentry demonstration program and lapse $2,608,000 to the general fund.

Lapse to the General Fund

5.a. Approve the request to lapse $734,276 to the general fund in 2014-15.

5.b. Approve the request but specify that any amount of income augmentation revenue that is lapsed to the general fund not be counted in meeting DCF's Act 20 lapse requirement.

Other Alternatives

6. Modify the request to allocate income augmentation funding for the SAFE Milwaukee initiative, IEVS penalty, offender reentry demonstration program, lapses to the general fund, and any other state program in amounts the Committee determines.

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