



Legislative Fiscal Bureau

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June 1, 1999

Joint Committee on Finance

Paper #1087

TANF

Contingency Payments (DWD -- Economic Support and Child Care)

[LFB 1999-01 Budget Summary: Page 684 , #13]

CURRENT LAW

Under current law, \$25.0 million was allocated in the 1997-99 biennium to the Department of Workforce Development (DWD) for contingency payments to Wisconsin Works (W-2) agencies for subsidized employment and office costs. Current law specifies that these funds would be distributed under criteria established by the Department. To date, no criteria have been established for the use of these funds, and the funds have not been distributed.

GOVERNOR

Provide \$90.0 million in federal funding under the temporary assistance to needy families (TANF) program in the biennium for contingency payments to W-2 agencies for program costs to be distributed under criteria developed by the Department.

DISCUSSION POINTS

1. Under the federal TANF program, federal funding takes the form of a block grant which generally is fixed. The burden of any increased costs in the W-2 program will have to be borne by the state within the limits of the federal block grant and any state funds. Maintaining a reserve fund of federal dollars may help prevent the need for increased state expenditures in the event of future increases in costs or need.

2. Federal TANF funds are available until expended, which means that any unobligated funds from one year can be accessed in future years for benefits for TANF-eligible families.

However, federal TANF funds are not transferred to the state until they are expended. As a result, these funds are not guaranteed and could be rescinded. At the federal level, the U.S. Senate has already considered rescinding unobligated federal TANF funds.

3. According to the Center on Budget and Policy Priorities, reserve funds that can be spent only in specific circumstances are more likely to be protected should there be a future attempt by federal policy makers to reduce TANF allocations or take back unspent state funds.

4. At least 14 states outside of Wisconsin have included language in their welfare reform statutes that establish a contingency fund. Eleven other states have no statutory language, but have earmarked contingency funds through departmental budgeting procedures. In at least 15 of these states, contingency funds consist of federal TANF dollars. The remaining states have placed state funds in reserve.

5. Texas specifies that funds may not be expended without the approval of the Governor and the Legislative Budget Board (a legislative committee that develops budget recommendations and reviews expenditures). Nevada also requires legislative approval prior to expending contingency funds.

6. The contingency fund of \$90.0 million proposed by the Governor is equal to 14% of Wisconsin's TANF block grant over two years. By comparison, Georgia has set aside 3.2% of its TANF block grant in fiscal year 1999, Indiana has earmarked 10% of its block grant for contingency purposes and Ohio's reserve fund will equal 21% of its annual TANF block grant allocation by the end of 1999. It should also be noted that the Governor's bill would set aside an additional \$9.1 million in a child care reserve.

7. If the Committee increases or decreases expenditures for the W-2 program or other related programs which use TANF funding, the amount available for a contingency fund could be more or less than \$90.0 million. Therefore, the Committee could place a different amount in reserve for contingency purposes.

8. The administration indicates that DWD would be allowed to use contingency funds as a contract reserve to adjust the estimated levels of the next W-2 agency contracts if there is an increase of more than 10% between the estimated caseload for an agency used for the request for proposals (RFP) and the agency's actual caseload at the time of the contract signing.

9. However, no provisions relating to this contract reserve are specified in the bill. The proposal pertaining to contingency payments is broad enough to encompass any funds the Department determines are needed due to changes in the caseload between the time the RFP was issued and the time the final contract is signed. Moreover, the proposed statutory language would allow the Department to provide contingency payments for any reason the Department determines is necessary, without review by the Joint Committee on Finance or any other legislative body.

10. In order to provide legislative oversight regarding the use of contingency funds, these funds could be placed in the Committee's appropriation to be released only as needed under s.

13.10.

11. Although a \$25.0 million contingency fund was authorized for DWD in the 1997-99 budget, it is not a common budget practice in Wisconsin to provide contingency funding to agencies in excess of estimated expenditures.

12. Moreover, the \$25.0 million that was provided in the 1997-99 biennium was approved at a time when W-2 was a new program that had not yet been implemented and it was unclear if budgeted expenditures would be sufficient to cover all program costs. Despite these uncertainties, the Legislature appropriated only \$25.0 million and none of those funds were distributed. Currently, the state has almost two years of experience with the W-2 program and budgeted expenditures are based on actual experience. Therefore, the Committee could choose to eliminate the contingency fund.

13. If contingency funding is not allocated directly to DWD or placed in the Committee's appropriation, these monies would become part of the ending TANF balance to be carried over to the 2001-03 biennium. Any funds in the ending balance would not be available to the Department for expenditure without subsequent legislation to appropriate these revenues.

ALTERNATIVES

1. Approve the Governor's recommendation to allocate \$90.0 million in federal TANF funds in the biennium for contingency payments to W-2 agencies for program costs to be distributed according to criteria established by the Department.

2. Modify the Governor's recommendation by specifying a different amount for the contingency fund. Under this alternative, the specified amount would be distributed according to criteria established by the Department.

3. Modify the Governor's recommendation by placing \$90.0 million (or a different amount) for contingency payments in the Joint Committee on Finance's program supplements appropriation for release under s. 13.10.

4. Eliminate the \$90.0 million contingency fund.

<u>Alternative 4</u>	<u>FED</u>
1999-01 FUNDING (Change to Bill)	- \$90,000,000

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June 1, 1999

Joint Committee on Finance

Paper #1088

TANF

Child Care Eligibility and Copay Requirements (DWD -- Economic Support and Child Care)

[LFB 1999-01 Budget Summary: Page 678, #2, Page 685, #16 and Page 689, #18]

CURRENT LAW

A custodial parent, guardian, foster parent, legal custodian, person acting in the place of a parent or providing kinship care for a child is eligible for a child care subsidy for a child under the age of 13 for whom child care is needed in order for the individual to participate in certain activities and if certain financial and nonfinancial criteria are met. Initial eligibility for child care is limited to families with income of no more than 165% of the federal poverty level (FPL). Once eligible, families retain eligibility until income exceeds 200% of poverty, at which point the family is no longer eligible for child care subsidies unless the family's income falls below 165% of poverty.

Child care subsidies are provided for an eligible individual to work in a Wisconsin Works (W-2) employment position or an unsubsidized job (including training), to meet Learnfare school attendance requirements or to obtain a high school diploma or GED.

In addition, the individual may be participating in employment skills training, including an English as a second language course, if the W-2 agency determines that the course would be beneficial to the individual to obtain employment; a course of study to obtain a GED; or other vocational training or educational courses that provide an employment skill, as determined by the Department of Workforce Development (DWD). An individual may not receive assistance under this provision unless the individual is a participant in a W-2 employment position or has been employed in an unsubsidized job for nine consecutive months and continues to be employed. An individual may receive aid under this provision for up to two years.

Gross income for determining child care eligibility is the same as used for purposes of determining eligibility for W-2 employment positions. Gross income is statutorily defined to include all earned and unearned income, except benefits received for participation in a W-2 employment position and the federal and state earned income tax credits. Child support payments distributed to the W-2 assistance group and the income of a nonmarital coparent or spouse who resides in the same home as the child are also included in gross income.

The individual must also meet the W-2 resource limitation requirements, which specify that eligibility is limited to assistance groups whose assets do not exceed \$2,500 in combined equity value, excluding vehicles up to a total value of \$10,000 and one home that serves as the group's homestead.

The statutes specify that recipients of child care subsidies are liable for the percentage of the cost of child care as specified by DWD. According to administrative rule, the Department must set a schedule for parent copayments that requires all families to have a payment responsibility. The copayment amounts are based on family size, family income, the number of children in child care and the type of child care selected (copays for certified care are approximately 30% less than the licensed copay amount). However, the copayment rate for certain categories of parents is capped at the minimum copayment amount for the appropriate number of children for each type of child care. The affected parents include minor teen parents who are not Learnfare participants, foster parents and kinship care parents. Finally, minor teen parents who are Learnfare participants attending high school or its equivalent and food stamp recipients participating in employment training are not subject to a copayment requirement.

GOVERNOR

Provide \$9,000,000 FED in 1999-00 and \$18,000,000 FED in 2000-01 to reflect the following recommended modifications to child care eligibility and the copay schedule. With one exception, these provisions would take effect on January 1, 2000. The recommended modifications to the allowable educational activities would take effect on the bill's general effective date.

Income Limit. Increase the maximum gross income a family may have for initial eligibility from 165% of the federal poverty level to 185%. As provided under current law, once eligible, families would retain eligibility until income exceeds 200% of poverty, at which point the family would no longer be eligible for child care subsidies. The bill estimates this to cost \$1,000,000 in 1999-00 and \$2,000,000 in 2000-01.

Disabled Children. Allow parents to receive a child care subsidy for children over age 13 if the child is disabled and under the age of 19. The bill estimates this to cost \$1,000,000 in 1999-00 and \$2,000,000 in 2000-01.

Educational Activities. Modify the provisions related to the educational activities that are allowed for purposes of obtaining a child care subsidy by allowing an individual to

participate in basic education, including English as a second language, literacy tutoring or a course of study to obtain a GED, if the W-2 agency determines it would facilitate efforts to obtain or maintain employment. These activities would be allowed under the child care program for W-2 participants and individuals who are currently employed in unsubsidized employment (regardless of the duration of employment). In addition, reduce the length of time an individual must have held an unsubsidized job from nine months to three months in order to allow participation in a course of study at a technical college or in educational courses that provide an employment skill. The administration indicates that this provision has an unknown fiscal effect.

Income of Self-Employed Persons. Specify that the income of farmers and self-employed persons would include net earnings reported to the Internal Revenue Service (IRS) plus depreciation expenses, personal business and entertainment expenses, personal transportation costs, purchases of capital equipment and payments on the principal of loans. Under AB 133, this provision is estimated to increase expenditures by \$500,000 in 1999-00 and \$1,000,000 in 2000-01.

Asset Limitation. Eliminate the provision that limits child care eligibility to families whose assets do not exceed \$2,500. The bill estimates this to increase costs by \$500,000 in 1999-00 and \$1,000,000 in 2000-01.

Child Support. Remove child support from the definition of gross income for determining eligibility for child care subsidies. This provision is estimated to have a minimal fiscal effect.

Copayment Cap. Modify the copayment schedule so that the required copayment will not exceed 12% of the family's gross income, which is estimated, under AB 133, to increase expenditures by \$2,500,000 in 1999-00 and \$5,000,000 in 2000-01.

Copayment for First Month of Unsubsidized Employment. Assess the same copayment amount during the first month an individual holds an unsubsidized job as was paid while in a W-2 subsidized employment position. The bill estimates this provision to cost \$250,000 in 1999-00 and \$500,000 in 2000-01.

Copayment for Part-Time Child Care. Assess a lower copayment for families that need child care for less than 20 hours per week. Under AB 133, this provision is estimated to increase expenditures by \$3,250,000 in 1999-00 and \$6,500,000 in 2000-01.

Contingency Reserve. Allocate \$9,050,900 in 1999-00 as a contingency reserve for child care expenditures. Any unused balance, which would be made up of federal temporary assistance to needy families (TANF) funds, would carry forward and be available for the W-2 program in 2000-01 and thereafter.

DISCUSSION POINTS

1. Since the budget bill was introduced, the administration has expressed concern regarding the January 1, 2000, effective date because the programming changes that would be required for these program modifications would need to be completed during the same period as Year 2000 (Y2K) activities are being conducted. The administration recommends delaying the effective date to March 1, 2000. The revised fiscal effects presented in the following sections reflect the March 1, 2000, effective date.

2. Under the 1997-99 biennial budget (1997 Act 27), \$155.5 million in 1997-98 and \$177.4 million in 1998-99 was budgeted for direct child care services. Actual expenditures in 1997-98 equaled \$94.9 million, which included \$10.4 million that was paid in advance for the 1998 contract year. If the advance payments are subtracted from the total, expenditures were \$84.5 million, or \$71.0 million less than budgeted for 1997-98.

3. Information on the number of parents and children that were served during the 1997-98 fiscal year is unknown because Milwaukee County is unable to report this information reliably. However, Milwaukee County converted from its own automated child care payment and data system to the state's system in March of 1999, which should result in better data in the future.

4. The following information was obtained from data for the month of April, 1999:

- There were a total of 15,546 families who received child care subsidies for 27,343 children, an average of 1.8 children per family. In addition, subsidies were paid to 4,235 child care providers, which reflects an average of 6.5 subsidy children per provider.

- The subsidy payments for April totaled \$9.2 million. The average subsidy for the month was \$593 per family, \$337 per child and \$2,175 for each provider.

- The majority of children (78.6%) were cared for by providers that are licensed by the state and 21.4% were cared for by providers that are certified by the counties.

- Of total subsidies paid in April, approximately 57.9% (\$5.3 million) was paid to Milwaukee County for 6,765 families (43.5% of all families) with 12,748 children (46.6% of all children).

Reestimate of Current Law Program and Proposed Expansion

5. As part of the Governor's budget recommendation, the current child care program was estimated by the administration to cost \$136,500,000 in 1999-00 and \$143,325,000 in 2000-01. However, based on more recent actual child care expenditures, the current law program is now estimated to cost \$154,300,000 in 1999-00 and \$162,000,000 in 2000-01, an increase of \$17,800,000 in 1999-00 and \$18,675,000 in 2000-01 from the amounts provided in the bill. These reestimates are still lower than the amount budgeted for the current 1998-99 fiscal year (\$177.4 million) by \$23.1 million in the first year and \$15.4 million in the second year.

6. The Governor recommends increasing initial eligibility for child care to 185% of the FPL, which is reestimated to increase expenditures by \$800,000 in 1999-00 and \$3,300,000 in 2000-01 if no other modifications are made to the current program. The bill would also lower the copay requirement for parents, which is now estimated to cost \$1,400,000 in 1999-00 and \$5,500,000 in 2000-01 if no other changes to current law are adopted. If both of these provisions are adopted together, the combined cost would exceed the cost of the current program by \$2,200,000 in 1999-00 and \$9,100,000 in 2000-01. The combined cost exceeds the estimated cost of each provision as calculated on an individual basis because, if adopted in conjunction with each other, there would be additional child care participants with a lower copay requirement than under current law. Compared to the estimates contained in the bill for these two changes, the reestimates reflect a reduction of \$1,300,000 in 1999-00 (due to the delayed effective date) and an increase of \$2,100,000 in 2000-01 (a total increase of \$800,000 over the biennium as compared to the bill).

7. The remaining estimates contained in this paper are based on the reestimate of the current law program and the two expansion provisions discussed above: increasing initial eligibility and lowering the copay requirement. It should be noted that if alternatives related to the subsidy program are adopted in place of the Governor's recommendations, the fiscal estimates may need to be adjusted. Attachment 1 shows the estimates of the current program and the proposed expansions as prepared by the administration and this office.

Increase Income Limit

8. Under the federal child care program, states are allowed to provide services to children in families with income equal to or less than 85% of the state's median income for a family of the same size. In Wisconsin, 85% of state median income for a family of four is approximately equal to 270% of the FPL in 1999.

9. Information on the child care subsidy programs in other states was obtained from a preliminary report dated January 20, 1999, prepared by a private consulting firm (Maximus). According to this data, 27 states base income eligibility for subsidized child care on the FPL (ranging from 120% to 200%) and the remaining 23 states, plus the District of Columbia, base eligibility on the state's median income (ranging from 38% to 85%).

10. For a family of four in 1999, Alaska had the highest income limit for initial child care eligibility at \$52,766 and Wyoming had the lowest at \$20,040. Wisconsin ranked 34th at \$27,555 in 1999, but would be ranked 21st under the Governor's bill recommendation. In addition to Wisconsin, seven other states had separate income limits for initial eligibility and continuing eligibility. Although most states have a higher income eligibility limit than Wisconsin, many have waiting lists and are not able to serve all families who are eligible.

11. Table 1 shows annual income levels for various family sizes relative to the FPL in 1999. The table shows that a family of four initially becomes eligible for child care when annual income falls below \$27,555 under current law (165% of poverty) and that initial eligibility would increase to \$30,895 under the Governor's recommendation (185% of the FPL). Once annual income

exceeds \$33,400 (200% of poverty), the family would no longer be eligible for a subsidy. Federal law would allow a family of four with income below \$45,090 to be eligible for child care.

TABLE 1

Annual Income Levels for Different Family Sizes as Measured Against the Federal Poverty Level -- 1999

Family Size	100%	165%	185%	200%	225%	250%	270%
Two	\$11,060	\$18,249	\$20,461	\$22,120	\$24,885	\$27,650	\$29,862
Three	13,880	22,902	25,678	27,760	31,230	34,700	37,476
Four	16,700	27,555	30,895	33,400	37,575	41,750	45,090
Five	19,520	32,208	36,112	39,040	43,920	48,800	52,704
Six	22,340	36,861	41,329	44,680	50,265	55,850	60,318
Seven	25,160	41,514	46,546	50,320	56,610	62,900	67,932
Eight	27,980	46,167	51,763	55,960	62,955	69,950	75,546

12. There are any number of potential modifications that could be made to the income eligibility limits for the child care subsidy program. For comparison purposes, the fiscal effects of the following options are provided, assuming a March 1, 2000, effective date. These estimates reflect the proposed copay reduction proposed by the Governor and may be different if another alternative is adopted in its place.

	Percent of FPL		Estimated Cost (in Millions)		
	Initial Eligibility	Maximum Income	1999-00	2000-01	Biennium
a.	185%	225%	\$0.9	\$3.7	\$4.6
b.	200	200	1.1	4.4	5.5
c.	200	225	1.6	6.7	8.3
d.	225	225	3.4	14.3	17.7
e.	225	250	4.0	17.0	21.0
f.	250	250	6.0	25.5	31.5
g.	250	270	6.5	27.7	34.2
h.	270	270	8.2	34.9	43.1

Disabled Children

13. Under the federal child care program, children must be less than 13 years old for the family to receive child care assistance. However, federal regulations allow, at the state's option, children over the age of 12 and under 19 to be eligible if the child is physically or mentally incapable of caring for himself or herself. Wisconsin is one of four states that do not allow for care

of children age 13 and above who are incapable of self-care.

14. Under Wisconsin's child care program, higher subsidies are provided for children under the age of 13 who have special needs, which is defined in DWD's Child Day Care Manual as emotional, behavioral or physical needs (including a developmental disability) that require more than the usual amount of care and supervision. Whether a child is eligible for a higher subsidy is determined by the county on a case-by-case basis and the amount of the additional subsidy varies based on the severity and type of disability. However, information on the number of children who are currently eligible for the higher subsidy is not available.

15. Based on information from the Department of Public Instruction on students with exceptional education needs and data on current participation in the child care subsidy program, it is now estimated that this modification would increase costs by \$600,000 in 1999-00 and \$2,200,000 in 2000-01. These estimates are lower than those of the bill by \$400,000 in 1999-00 and higher by \$200,000 in 2000-01.

Educational Activities

16. The bill would modify the provisions related to the educational activities that are allowed for purposes of obtaining a child care subsidy by clarifying the educational activities allowed and reducing or eliminating the length of time a person must have held an unsubsidized job in order for education to be allowed. The bill would make the following changes:

a. Currently, an individual pursuing a GED who is not a W-2 participant must have been employed in unsubsidized employment for nine consecutive months and continue to be so employed in order to be eligible for child care benefits. The nine-month requirement would be eliminated under the bill so that individuals in unsubsidized employment would be eligible for a child care subsidy while pursuing a GED regardless of how long they have held an unsubsidized position.

b. The bill would reduce the length of time an individual must have been employed in unsubsidized employment from nine months to three months in order to be eligible for child care while participating in a course of study at a technical college or in educational courses that provide an employment skill.

c. The bill would clarify that literacy tutoring and basic education are allowable educational activities for individuals who are presently employed in an unsubsidized job (regardless of the duration of the employment) or participating in a W-2 employment position.

17. These modifications were recommended by the Governor's W-2 Education and Training Committee in its June, 1998, report. The committee's recommendations emphasized the importance of earning a high school diploma or GED, literacy training and English as a second language courses. Specifically, the report recommended that the nine-month waiting period be eliminated for those in unsubsidized employment who are also participating in basic education.

18. The modifications related to allowable educational activities would only impact child care recipients who are not also W-2 program participants (approximately 78.4% in April of 1999). In addition, the provision would not directly increase the number of child care recipients, but would allow individuals to be eligible for child care while participating in certain educational activities earlier than under current law (these individuals are already eligible for child care while working at an unsubsidized job).

19. The administration has indicated that this provision has an unknown fiscal effect. However, based on information from the 1998 U.S. Statistical Abstract on participation in adult education, it can be estimated that this modification would increase costs by \$400,000 in 1999-00 (assuming the bill takes effect September 1, 1999) and \$500,000 in 2000-01.

Income of Self-Employed Persons

20. Eligibility for W-2 child care is currently based on gross income and does not allow for the subtraction of any business expenses. The net income definition proposed by the Governor was used under the former AFDC program. The expenses that could be deducted from gross income under the bill to arrive at net income include: advertising, bad debts from sales or services, business transportation expenses, commissions and fees, conservation expenses, depletion, employee benefit programs, insurance, interest, legal and professional services, office expenses, pension and profit-sharing, rent or leases, repairs and maintenance, storage and warehousing, supplies, taxes and licenses, utilities and wages. The administration indicates that the individual's copayment would also be based on the same net income amount. Gross income would continue to be used to determine eligibility for W-2 employment positions.

21. The Department conducted a review of child care applicants in February of 1998 on every county except Milwaukee and found that 33 people were denied subsidies because of the use of gross income instead of net income. It is also anticipated that there could have been additional families who did not apply for child care because they were aware that their gross income was too high. Based on this information, the administration estimated that this provision would increase costs by \$500,000 in 1999-00 and \$1,000,000 in 2000-01.

22. Since information on the number of additional families that would be eligible for child care under the modification is not readily available, the 1997 Wisconsin income tax sample was used to provide a basis for a revised estimate. According to this information and current child care participation rates, it is estimated that this change would increase program expenditures by \$400,000 in 1999-00 and \$1,500,000 in 2000-01. These figures are lower than the administration's estimates by \$100,000 in the first year and higher by \$500,000 in the second year.

Asset Limitation

23. In order to receive a child care subsidy, individuals must currently meet the same asset limitation requirements as required for participation in W-2 employment positions. Food stamp recipients and certain medical assistance (MA) beneficiaries are also subject to an asset test

under different provisions.

24. The Governor's recommendation would eliminate the asset test for child care eligibility. The administration indicates that the asset test is confusing to applicants. In addition, it was indicated that the asset limit is not necessary for the child care program because it does not provide a cash benefit to the recipient. Eliminating the requirement would also allow working families to accumulate savings. Finally, there was not an asset test for child care prior to the creation of W-2.

25. As noted, there is currently an asset test for the W-2, MA and food stamp programs. Since 89% of child care beneficiaries also receive public assistance under these other programs, only 11% of child care beneficiaries would not be subject to any asset test under the bill.

26. In April of 1999, the Department conducted a review of child care applicants for a one-year period (from March 1998 through February 1999) and found that 357 cases were denied child care benefits because of excessive assets. However, there may have been other families who did not apply for child care because they were aware of the asset limitation. Based on this information, it is estimated that this modification would increase program costs by \$500,000 in 1999-00 and \$2,000,000 in 2000-01. These amounts exceed the administration's estimates by \$1,000,000 in 2000-01.

Child Support

27. As noted above, the same definition of income is used for the child care program as used for purposes of determining eligibility for W-2 employment positions under current law. The Governor recommends eliminating the inclusion of child support payments as income for purposes of determining eligibility for W-2 employment positions and job access loans. This change was recommended due to a federal requirement that child support passed through to TANF recipients cannot be counted towards the state's maintenance-of-effort if it is included in income for eligibility under the TANF program.

28. The bill would also eliminate child support from the definition of gross income under the child care program. The administration indicates that this modification was made to make the definition of income for child care consistent with the definition used under W-2. However, the bill provision to use net income instead of gross income for self-employed families for child care purposes and not for the W-2 program would create an inconsistent definition of income between the programs.

29. Eliminating child support from the definition of income would simplify administration of the child care subsidy program for the counties and parents. The current program requires parents to notify the county if monthly income increases by \$250 or more or if income decreases by \$100 or more. Parents who receive sporadic support payments are often in and out of the program or receive monthly changes in their copay amount. Eliminating child support from inclusion in income would allow for continuity of child care benefits for the family and a steady

flow of income for the child care provider.

30. On the other hand, removing child support payments from the definition of income could create inequities between families who have the same amount of income, but from different sources. For example, a family whose income is made up entirely of wages would not be eligible for child care if their income exceeds 165% of the federal poverty level. However, a family with the same level of total income could be eligible for a subsidy if a portion of that income consists of child support payments.

31. The administration estimated that this modification would have a minimal fiscal effect.

32. The Department indicates that approximately 24.7% of W-2 recipients receive a child support payment in a given month in an average amount of \$343. Based on this information and on historical participation in the child care program, it can be estimated that this modification would increase program costs by \$400,000 in 1999-00 and \$1,400,000 in 2000-01. The increased cost reflects additional participation as more individuals would become eligible for subsidies because their income would be lower and, secondly, existing participants would have a reduced copay requirement due to a lower income.

Reduce Copay Cap

33. Federal regulations specify that parent copayments be based on family size and income. States are allowed to waive fees for families with income at or below the federal poverty level. Based on information from the January report noted above, states use a variety of models to determine the parent's copay. The study found that 10 states exempt all families with income below 100% of the FPL from a copay requirement and 17 states exempt TANF recipients with income below poverty.

34. The copay schedule under current law is shown in Attachment 2. The schedule was last modified May 1, 1999, in order to reflect the 1999 federal poverty figures. The schedule was originally structured so that the required copayment would not exceed 16% of the family's gross income. However, since the income amounts have been adjusted to reflect changes in the poverty level but the copay amounts have remained unchanged, the maximum copayment is now equal to 14.8% of income, as shown in the top part of Attachment 4.

35. The Governor recommends reducing the copay requirement to the amounts shown in Attachment 3. Under the proposed schedule, the maximum copayment would equal 11.8% of the family's income, as shown in the bottom portion of Attachment 4. The copays for certified child care would continue to be approximately 30% less than the amounts for licensed care. Attachment 5 shows the change in the weekly copayment under the Governor's recommendation; the change on an annual basis is also provided. The proposal would result in a copay reduction of approximately 20% as compared to current law.

36. This paper presents four options to modify the copay schedule in addition to the

Governor's proposal. Because there are an infinite number of ways to modify the copay schedule, the Committee could adopt one or more of these alternatives or any other option. As noted, these estimates reflect increasing initial eligibility to 185% of the FPL; the fiscal effects would be somewhat different if other changes are made to the Governor's proposal.

a. If a provision was adopted to exempt all families with income below the federal poverty level from the copayment requirement, program costs compared to the bill would increase by an estimated \$1,100,000 in 1999-00 and \$4,400,000 in 2000-01 if the proposed copay schedule is retained for all other families.

b. An option to eliminate a copay requirement for families with income below 70% of the FPL would increase costs by \$500,000 in 1999-00 and \$1,800,000 in 2000-01, assuming the Governor's proposed copay schedule is retained for all other families. These estimates also reflect no copay requirement for those who currently pay the minimum copay regardless of income (foster parents, kinship care parents and minor teen parents who are not Learnfare participants).

c. The Governor's proposed copay schedule could be reduced further so that the required copay would not exceed 10% of gross income, which reflects reducing the current copay amounts by one-third for all families. This option is estimated to increase the cost of the bill by \$1,000,000 in 1999-00 and \$3,800,000 in 2000-01.

d. Another alternative would be to vary the amount of the reduction for families based on income. Reducing the current law copays by 46% for families with income between 195% and 200% of the FPL and gradually increasing the rate of the reduction to 60% for families with income below 70% of the FPL would increase costs by \$2,300,000 in 1999-00 and \$9,300,000 in 2000-01 (as compared to the bill). The required copay would not exceed 8.0% under this option.

Copayment for First Month of Unsubsidized Employment

37. Under the current child care program, parents are required to notify the county if monthly income increases by \$250 or more or if income decreases by \$100 or more. The county then adjusts the parent's copay requirement accordingly.

38. The Governor recommends assessing the same copayment amount during the first month an individual holds an unsubsidized job as was paid while in a W-2 subsidized employment position. The administration indicates that this modification would allow families to better transition into unsubsidized employment.

39. This modification is reestimated to increase expenditures \$30,000 in 1999-00 and \$100,000 in 2000-01, which is lower than the administration's estimate by \$220,000 in 1999-00 and \$400,000 in 2000-01. The reduced estimate is based on a lower W-2 caseload than used by the administration and a later effective date. If the Governor's recommendations related to the copay schedule and initial income eligibility are modified, these estimates would change.

Copayment for Part-Time Child Care

40. Under the current child care subsidy program, the same copay is assessed regardless of how many hours the child spends in child care. The Governor recommends assessing a lower copayment for families that need child care for less than 20 hours per week. According to the administration, the copay would be reduced by one-half for families who have all children in care for less than 20 hours per week.

41. This modification is estimated to increase expenditures by \$400,000 in 1999-00 and \$1,500,000 in 2000-01. This revised estimate is lower than the administration's by \$2,850,000 in 1999-00 and \$5,000,000 in 2000-01 because the administration's estimate was based on an estimate of the number of children in part-time care and the reestimate is based on the estimated number of families with all children in part-time care. This estimate may change if other changes are made to the bill.

Fiscal Effect

42. In total, child care expenditures would increase by an estimated \$4,930,000 in 1999-00 and \$18,300,000 in 2000-01, compared to current law, if all of the program modifications recommended by the Governor are adopted. Compared to the estimates provided by the administration, the reestimates are lower by \$4,070,000 in 1999-00 and higher by \$300,000 in 2000-01.

43. If these modifications are combined with the new estimates of the current law program, expenditures would increase by \$4,679,100 in 1999-00 and \$18,975,000 in 2000-01 from the amounts provided in the bill (a total increase of \$23,654,100 over the biennium). These figures reflect the elimination of the \$9,050,900 child care contingency reserve. As noted, Attachment 1 shows the estimates of the current program and the proposed expansions as prepared by the administration and this office.

44. As noted, the higher cost is primarily due to the new estimate of the current law program. In fact, the total amount of funding allocated in the bill for direct child care (\$154,550,900 in 1999-00 and \$161,325,000 in 2000-01) is similar to the reestimated cost of the current program prior to consideration of the proposed expansions (\$154,300,000 in 1999-00 and \$162,000,000 in 2000-01). One option would be to not adopt any of the program modifications proposed by the Governor and to use the funding provided to fully fund the existing program. This option includes using the contingency reserve.

45. If the Committee wishes to adopt any of the bill's modifications or to otherwise expand the child care subsidy program, the following points should be considered:

a. The bill would reduce funding for the direct child care program by \$22.9 million in 1999-00 and \$16.1 million in 2000-01 from the \$177.4 million base. Since the reestimated cost of the current law program is still below the base by \$23.1 million in 1999-00 and \$15.4 million in 2000-01, the program could be expanded by this same amount.

b. The bill would increase funding for the indirect child care programs by \$13.0 million in 1999-00 and \$10.8 million in 2000-01. Specifically, the bill would increase funding for some the existing indirect programs and create six new programs. The indirect allocation funds the Office of Child Care in DWD and other activities designed to improve the quality and availability of child care (this program is discussed in a separate issue paper). The direct subsidy program could be expanded in place of increasing funding for indirect child care.

c. Under the bill, the Governor elected to not access the matching component of the federal child care development block grant. The state could choose to obtain these funds (\$20.2 million in 1999-00 and \$23.8 million in 2000-01) by increasing the amount of GPR appropriated by \$14.2 million in 1999-00 and \$16.7 million in 2000-01. In total, this would increase funding by \$34.4 million in 1999-00 and \$40.5 million in 2000-01. The state could also provide a lower amount of GPR funding in order to access a portion of the federal matching revenues. The Medicaid matching rate (approximately 40% in Wisconsin) is used for these funds, which requires the state to spend \$4 for every \$6 in federal funds expended.

d. The Governor's recommendations related to the W-2 program include a \$90.0 million contingency reserve. This funding could be used to fund an expansion of the child care program.

e. The Governor recommends funding several new initiatives with TANF dollars, such as the workforce attachment fund, early childhood excellence and community youth grants. The existing child care program could be expanded instead of creating new programs in DWD and other agencies.

ALTERNATIVES

Reestimates and Contingency Reserve

1. Increase funding by \$17,800,000 FED in 1999-00 and \$18,675,000 FED in 2000-01 to reflect a reestimate of the current law child care subsidy program. This would provide total funding of \$154,300,000 in 1999-00 and \$162,000,000 in 2000-01.

<u>Alternative 1</u>	<u>FED</u>
1999-01 FUNDING (Change to Bill)	\$36,475,000

2. Reestimate the Governor's recommendations related to expanding child care eligibility and making modifications to the copay schedule by decreasing funding by \$4,070,000 FED in 1999-00 and increasing funding by \$300,000 FED in 2000-01. Specify that these modifications, with the exception of the educational activities-related item, would take effect on March 1, 2000.

Alternative 2	FED
1999-01 FUNDING (Change to Bill)	- \$3,770,000

3. Reduce funding by \$9,050,900 FED in 1999-00 and eliminate the contingency reserve for direct child care.

Alternative 3	FED
1999-01 FUNDING (Change to Bill)	- \$9,050,900

Modify the Governor's Recommendations

4. Delete one or more of the following recommended modifications from the Governor's proposal. The fiscal effects shown reflect the reestimates and assume that the other provisions recommended by the Governor would be retained. If other alternatives are adopted, the fiscal estimates may change.

a. Delete the recommended increase in the maximum gross income a family may have for initial eligibility from 165% of the federal poverty level to 185%. Reduce funding by \$800,000 FED in 1999-00 and \$3,600,000 FED in 2000-01.

Alternative 4a	FED
1999-01 FUNDING (Change to Bill)	- \$4,400,000

b. Delete the provision to allow parents to receive a child care subsidy for children over age 13 if the child is disabled and under the age of 19. Reduce funding by \$600,000 FED in 1999-00 and \$2,200,000 FED in 2000-01.

Alternative 4b	FED
1999-01 FUNDING (Change to Bill)	- \$2,800,000

c. Delete the provision to modify the educational activities that are allowed for purposes of obtaining a child care subsidy. Decrease funding by \$400,000 FED in 1999-00 and \$500,000 FED in 2000-01 to reflect this alternative.

Alternative 4c	FED
1999-01 FUNDING (Change to Bill)	- \$900,000

d. Delete the provision to specify that the income of farmers and self-employed persons would include net income rather than gross income. Decrease funding by \$400,000 FED in 1999-00 and \$1,500,000 FED in 2000-01 to reflect this alternative.

Alternative 4d	FED
1999-01 FUNDING (Change to Bill)	- \$1,900,000

e. Retain the asset limitation requirement for the child care program. Decrease funding by \$500,000 FED in 1999-00 and \$2,000,000 FED in 2000-01 to reflect this alternative.

Alternative 4e	FED
1999-01 FUNDING (Change to Bill)	- \$2,500,000

f. Retain child support in the definition of gross income for determining eligibility for child care subsidies. Decrease funding by \$400,000 FED in 1999-00 and \$1,400,000 FED in 2000-01 to reflect this alternative.

Alternative 4f	FED
1999-01 FUNDING (Change to Bill)	- \$1,800,000

g. Delete the provision to modify the copayment schedule so that the required copayment will not exceed 12% of the family's gross income. Reduce funding by \$1,400,000 FED in 1999-00 and \$5,800,000 FED in 2000-01.

Alternative 4g	FED
1999-01 FUNDING (Change to Bill)	- \$7,200,000

h. Delete the provision to assess the same copayment amount during the first month an individual holds an unsubsidized job as was paid while in a W-2 subsidized employment position. Reduce funding by \$30,000 FED in 1999-00 and \$100,000 FED in 2000-01.

Alternative 4h	FED
1999-01 FUNDING (Change to Bill)	- \$130,000

i. Delete the recommendation to assess a lower copayment for families that need child care for less than 20 hours per week. Reduce funding by \$400,000 FED in 1999-00 and \$1,500,000 FED in 2000-01.

Alternative 4i	FED
1999-01 FUNDING (Change to Bill)	- \$1,900,000

Income Limit Alternatives

5. Modify the bill by increasing initial income and maximum income eligibility as shown in the following table, effective March 1, 2000. Funding for the biennium would be increased by the amount shown in the right-hand column.

	Percent of FPL		Fiscal Effect (in Millions)		
	Initial Eligibility	Maximum Income	1999-00	2000-01	Biennium
a.	185%	225%	\$0.9	\$3.7	\$4.6
b.	200	200	1.1	4.4	5.5
c.	200	225	1.6	6.7	8.3
d.	225	225	3.4	14.3	17.7
e.	225	250	4.0	17.0	21.0
f.	250	250	6.0	25.5	31.5
g.	250	270	6.5	27.7	34.2
h.	270	270	8.2	34.9	43.1

Copay Schedule Alternatives

6. Modify the bill by eliminating the copay requirement for families with income at or below 70% of the FPL, effective March 1, 2000. Increase funding by \$500,000 in 1999-00 and \$1,800,000 in 2000-01 to reflect this alternative.

Alternative 6	FED
1999-01 FUNDING (Change to Bill)	\$2,300,000

7. Modify the bill by eliminating the copay requirement for families with income at or below 100% of the FPL, effective March 1, 2000. Increase funding by \$1,100,000 in 1999-00 and \$4,400,000 in 2000-01 to reflect this alternative.

Alternative 7	FED
1999-01 FUNDING (Change to Bill)	\$5,500,000

8. Modify the bill by further reducing the copay requirement so that the required copay would not exceed 10% of income, effective march 1, 2000. Increase funding by \$1,000,000 in 1999-00 and \$3,800,000 in 2000-01 to reflect this alternative.

Alternative 8	FED
1999-01 FUNDING (Change to Bill)	\$4,800,000

9. Modify the bill by further reducing the copay requirement so that the required copay would not exceed 8% of income, effective March 1, 2000. The reduced copay amount would vary by family income as described in point "d" on page 11. Increase funding by \$2,300,000 in 1999-00 and \$9,300,000 in 2000-01 to reflect this alternative.

<u>Alternative 9</u>	<u>FED</u>
1999-01 FUNDING (Change to Bill)	\$11,600,000

Access Federal Matching Funds

10. Provide \$14,200,000 GPR in 1999-00 and \$16,700,000 GPR in 2000-01 to access the matching component of the federal child care development block grant. Under this option, additional federal revenues of \$20,200,000 in the first year and \$23,800,000 in the second year would be available. In addition, with the increased GPR funding, federal TANF funds currently allocated for the child care program would be decreased by \$14,200,000 in 1999-00 and \$16,700,000 in 2000-01. This alternative would not allocate the additional federal funds for specific expenditures.

<u>Alternative 10</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
1999-01 REVENUE (Change to Bill)	\$0	\$44,000,000	\$44,000,000
1999-01 FUNDING (Change to Bill)	\$30,900,000	-\$30,900,000	\$0

Maintain Current Law

11. Maintain current law. Reduce funding by \$9,000,000 FED in 1999-00 and \$18,000,000 FED in 2000-01 to reflect the amount provided in the bill for these modifications.

<u>Alternative 11</u>	<u>FED</u>
1999-01 FUNDING (Change to Bill)	-\$27,000,000

Prepared by: Kelsie Doty
Attachments

ATTACHMENT 1

Direct Child Care Subsidy Program Estimates

	Administration's Estimates		Reestimates		Difference	
	1999-00	2000-01	1999-00	2000-01	1999-00	2000-01
Current Law	\$136,500,000	\$143,325,000	\$154,300,000	\$162,000,000	\$17,800,000	\$18,675,000
Increase Initial Income Eligibility and Lower Copays*	\$3,500,000	\$7,000,000	\$2,200,000	\$9,100,000	-\$1,300,000	\$2,100,000
Disabled Children Over 12	1,000,000	2,000,000	600,000	2,200,000	-400,000	200,000
Educational Activities	0	0	400,000	500,000	400,000	500,000
Self-Employed Families	500,000	1,000,000	400,000	1,500,000	-100,000	500,000
Eliminate Asset Test	500,000	1,000,000	500,000	2,000,000	0	1,000,000
Child Support in Income	0	0	400,000	1,400,000	400,000	1,400,000
Initial Month of Employment	250,000	500,000	30,000	100,000	-220,000	-400,000
Part-Time Copay	3,250,000	6,500,000	400,000	1,500,000	-2,850,000	-5,000,000
Expansion Total	\$9,000,000	\$18,000,000	\$4,930,000	\$18,300,000	-\$4,070,000	\$300,000
Reserve	\$9,050,900	\$0	\$0	\$0	-\$9,050,900	\$0
Total	\$154,550,900	\$161,325,000	\$159,230,000	\$180,300,000	\$4,679,100	\$18,975,000
						\$23,654,100

*The estimated fiscal effects of the two separate provisions related to increasing initial income eligibility to 185% of the FPL and reducing the copay requirement are shown together due to the interaction of the two provisions.

ATTACHMENT 2

Current Child Care Co-Payment Schedule for Licensed and Certified Care

FPL	Gross Monthly Family Income Family Size										Weekly Licensed Care Copay Amount Children in Subsidized Care					Weekly Certified Care Copay Amount Children in Subsidized Care				
	2	3	4	5	6	7	8	9	10+	1	2	3	4	5+	1	2	3	4	5+	
	70%	\$645	\$810	\$974	\$1,139	\$1,303	\$1,468	\$1,632	\$1,797	\$1,961	\$5	\$9	\$14	\$18	\$23	\$3	\$6	\$10	\$13	\$16
75%	691	868	1,044	1,220	1,396	1,573	1,749	1,925	2,101	5	11	16	21	26	4	7	11	15	18	
80%	737	925	1,113	1,301	1,489	1,677	1,865	2,053	2,241	8	13	18	24	29	6	9	13	17	20	
85%	783	983	1,183	1,383	1,582	1,782	1,982	2,182	2,381	11	16	21	26	32	7	11	15	18	22	
90%	830	1,014	1,253	1,464	1,676	1,887	2,099	2,310	2,522	13	20	26	33	39	9	14	18	23	28	
95%	876	1,099	1,322	1,545	1,769	1,992	2,215	2,438	2,662	16	24	32	39	48	11	17	22	28	33	
100%	922	1,157	1,392	1,627	1,862	2,097	2,332	2,567	2,802	18	26	34	42	50	13	18	24	30	35	
105%	968	1,215	1,461	1,708	1,955	2,202	2,448	2,695	2,942	21	29	37	45	53	15	20	26	31	37	
110%	1,014	1,272	1,531	1,789	2,048	2,306	2,565	2,823	3,082	24	32	39	48	55	17	22	28	33	39	
115%	1,060	1,330	1,600	1,871	2,141	2,411	2,681	2,952	3,222	26	34	42	50	58	18	24	30	35	41	
120%	1,106	1,388	1,670	1,952	2,234	2,516	2,798	3,080	3,362	29	37	45	53	61	20	26	31	37	42	
125%	1,152	1,446	1,740	2,033	2,327	2,621	2,915	3,208	3,502	32	39	48	55	63	22	28	33	39	44	
130%	1,198	1,504	1,809	2,115	2,420	2,726	3,031	3,337	3,642	34	44	53	62	71	24	30	37	43	50	
135%	1,244	1,562	1,879	2,196	2,513	2,831	3,148	3,465	3,782	37	48	58	69	79	26	33	41	48	55	
140%	1,290	1,619	1,948	2,277	2,606	2,935	3,264	3,593	3,922	39	50	61	71	82	28	35	42	50	57	
145%	1,336	1,677	2,018	2,359	2,699	3,040	3,381	3,722	4,062	42	53	63	74	84	30	37	44	52	59	
150%	1,383	1,735	2,088	2,440	2,793	3,145	3,498	3,850	4,203	45	55	66	76	87	31	39	46	54	61	
155%	1,429	1,793	2,157	2,521	2,886	3,250	3,614	3,978	4,343	48	58	69	79	90	33	41	48	55	63	
160%	1,475	1,851	2,227	2,603	2,979	3,355	3,731	4,107	4,483	50	61	71	82	92	35	42	50	57	65	
165%	1,521	1,909	2,296	2,684	3,072	3,460	3,847	4,235	4,623	51	63	74	84	95	36	44	52	59	66	
170%	1,567	1,966	2,366	2,765	3,165	3,564	3,964	4,363	4,763	53	66	76	87	98	37	46	54	61	68	
175%	1,613	2,024	2,435	2,847	3,258	3,669	4,080	4,492	4,903	54	68	79	90	100	38	48	55	63	70	
180%	1,659	2,082	2,505	2,928	3,351	3,774	4,197	4,620	5,043	56	70	82	92	103	39	50	57	65	72	
185%	1,705	2,140	2,575	3,009	3,444	3,879	4,314	4,748	5,183	58	72	84	95	105	40	52	59	66	74	
190%	1,751	2,198	2,644	3,091	3,537	3,984	4,430	4,877	5,323	59	74	87	98	108	42	54	61	68	76	
195%	1,843	2,256	2,714	3,172	3,630	4,089	4,547	5,005	5,463	61	76	90	100	111	43	55	63	70	78	
200%	1,843	2,313	2,783	3,253	3,723	4,193	4,663	5,133	5,603	63	78	92	103	113	44	57	65	72	79	

Look down the column of the appropriate family size until you find the gross family monthly income level or at just less than the family income. Look to the right to find the appropriate co-payment by family and type of care.

* The copayment rate for the following categories of parents is found by selecting the lowest income line (70%) FPL and then finding the copayment listed, under either licensed care or certified care, for the appropriate number of children: foster parents, kinship care parents, and minor teen parents who are not Learnfare participants.

ATTACHMENT 3

Child Care Co-Payment Schedule for Licensed and Certified Care Under the Bill

FPL	Gross Monthly Family Income										Weekly Licensed Care					Weekly Certified Care								
	Family Size										Copay Amount					Copay Amount								
	2	3	4	5	6	7	8	9	10+	1	2	3	4	5+	1	2	3	4	5+					
70%	\$645	\$810	\$974	\$1,139	\$1,303	\$1,468	\$1,632	\$1,797	\$1,961	\$2,125	\$2,289	\$2,453	\$2,617	\$2,781	\$4	\$7	\$11	\$14	\$18	\$2	\$5	\$8	\$10	\$13
75%	691	868	1,044	1,220	1,396	1,573	1,749	1,925	2,101	2,277	2,453	2,629	2,805	2,981	4	9	13	17	21	3	6	9	12	14
80%	737	925	1,113	1,301	1,489	1,677	1,865	2,053	2,241	2,429	2,617	2,805	2,993	3,181	6	10	14	19	23	5	7	10	14	16
85%	783	983	1,183	1,383	1,582	1,782	1,982	2,182	2,381	2,581	2,781	2,981	3,181	3,381	9	13	17	21	26	6	9	12	14	18
90%	830	1,044	1,253	1,464	1,676	1,887	2,099	2,310	2,522	2,733	2,945	3,156	3,368	3,579	10	16	21	26	31	7	11	14	18	22
95%	876	1,099	1,322	1,545	1,769	1,992	2,215	2,438	2,662	2,885	3,108	3,331	3,554	3,777	13	19	26	31	38	9	14	18	22	26
100%	922	1,157	1,392	1,627	1,862	2,097	2,332	2,567	2,802	3,037	3,272	3,507	3,742	3,977	14	21	27	34	40	10	14	19	24	28
105%	968	1,215	1,461	1,708	1,955	2,202	2,448	2,695	2,942	3,189	3,436	3,683	3,930	4,177	17	23	30	36	42	12	16	21	25	30
110%	1,014	1,272	1,531	1,789	2,048	2,306	2,565	2,823	3,082	3,341	3,600	3,859	4,118	4,377	19	26	31	38	44	14	18	22	26	31
115%	1,060	1,330	1,600	1,871	2,141	2,411	2,681	2,952	3,222	3,493	3,763	4,034	4,304	4,575	21	27	34	40	46	14	19	24	28	33
120%	1,106	1,388	1,670	1,952	2,234	2,516	2,798	3,080	3,362	3,644	3,926	4,208	4,490	4,772	23	30	36	42	49	16	21	25	30	34
125%	1,152	1,446	1,740	2,033	2,327	2,621	2,915	3,208	3,502	3,796	4,090	4,384	4,678	4,972	26	31	38	44	50	18	22	26	31	35
130%	1,198	1,504	1,809	2,115	2,420	2,726	3,031	3,337	3,642	3,948	4,253	4,559	4,864	5,169	27	35	42	50	57	19	24	30	34	40
135%	1,244	1,562	1,879	2,196	2,513	2,831	3,148	3,465	3,782	4,099	4,416	4,733	5,050	5,367	30	38	46	55	63	21	26	33	38	44
140%	1,290	1,619	1,948	2,277	2,606	2,935	3,264	3,593	3,922	4,251	4,580	4,909	5,238	5,567	31	40	49	57	66	22	28	34	40	46
145%	1,336	1,677	2,018	2,359	2,699	3,040	3,381	3,722	4,062	4,403	4,744	5,085	5,426	5,767	34	42	50	59	67	24	30	35	42	47
150%	1,383	1,735	2,088	2,440	2,793	3,145	3,498	3,850	4,203	4,556	4,909	5,262	5,615	5,968	36	44	53	61	70	25	31	37	43	49
155%	1,429	1,793	2,157	2,521	2,886	3,250	3,614	3,978	4,343	4,707	5,071	5,435	5,799	6,163	38	46	55	63	72	26	33	38	44	50
160%	1,475	1,851	2,227	2,603	2,979	3,355	3,731	4,107	4,483	4,859	5,235	5,611	5,987	6,363	40	49	57	66	74	28	34	40	46	52
165%	1,521	1,909	2,296	2,684	3,072	3,460	3,847	4,235	4,623	5,011	5,399	5,787	6,175	6,563	41	50	59	67	76	29	35	42	47	53
170%	1,567	1,966	2,366	2,765	3,165	3,564	3,964	4,363	4,763	5,162	5,562	5,961	6,361	6,761	42	53	61	70	78	30	37	43	49	54
175%	1,613	2,024	2,435	2,847	3,258	3,669	4,080	4,492	4,903	5,314	5,725	6,136	6,547	6,958	43	54	63	72	80	30	38	44	50	56
180%	1,659	2,082	2,505	2,928	3,351	3,774	4,197	4,620	5,043	5,466	5,889	6,312	6,735	7,158	45	56	66	74	82	31	40	46	52	58
185%	1,705	2,140	2,575	3,009	3,444	3,879	4,314	4,748	5,183	5,617	6,052	6,487	6,921	7,356	46	58	67	76	84	32	42	47	53	59
190%	1,751	2,198	2,644	3,091	3,537	3,984	4,430	4,877	5,323	5,769	6,215	6,661	7,107	7,553	47	59	70	78	86	34	43	49	54	61
195%	1,843	2,256	2,714	3,172	3,630	4,089	4,547	5,005	5,463	5,921	6,379	6,837	7,295	7,753	49	61	72	80	89	34	44	50	56	62
200%	1,843	2,313	2,783	3,253	3,723	4,193	4,663	5,133	5,603	6,073	6,543	7,013	7,483	7,953	50	62	74	82	90	35	46	52	58	63

Look down the column of the appropriate family size until you find the gross family monthly income level or at just less than the family income. Look to the right to find the appropriate co-payment by family and type of care.

* The copayment rate for the following categories of parents is found by selecting the lowest income line (70% FPL) and then finding the copayment listed, under either licensed care or certified care, for the appropriate number of children: foster parents, kinship care parents, and minor teen parents who are not Learnfare participants.

ATTACHMENT 4

Current Law: Copayment as a Percent of Income

	Licensed Copay as a Percent of Income					Certified Copay as a Percent of Income				
	Children in Subsidized Care					Children in Subsidized Care				
	1	2	3	4	5+	1	2	3	4	5+
70% FPL	3.4%	4.8%	6.2%	6.8%	7.6%	2.0%	3.2%	4.4%	4.9%	5.3%
75% FPL	3.1%	5.5%	6.6%	7.5%	8.1%	2.5%	3.5%	4.6%	5.3%	5.6%
80% FPL	4.7%	6.1%	7.0%	8.0%	8.4%	3.5%	4.2%	5.1%	5.7%	5.8%
85% FPL	6.1%	7.1%	7.7%	8.1%	8.8%	3.9%	4.8%	5.5%	5.6%	6.0%
90% FPL	6.8%	8.3%	9.0%	9.8%	10.1%	4.7%	5.8%	6.2%	6.8%	7.2%
95% FPL	7.9%	9.5%	10.5%	10.9%	11.8%	5.4%	6.7%	7.2%	7.9%	8.1%
100% FPL	8.5%	9.7%	10.6%	11.2%	11.6%	6.1%	6.7%	7.5%	8.0%	8.1%
105% FPL	9.4%	10.3%	11.0%	11.4%	11.7%	6.7%	7.1%	7.7%	7.9%	8.2%
110% FPL	10.3%	10.9%	11.0%	11.6%	11.6%	7.3%	7.5%	7.9%	8.0%	8.3%
115% FPL	10.6%	11.1%	11.4%	11.6%	11.7%	7.4%	7.8%	8.1%	8.1%	8.3%
120% FPL	11.4%	11.6%	11.7%	11.8%	11.8%	7.8%	8.1%	8.0%	8.2%	8.1%
125% FPL	12.0%	11.7%	12.0%	11.7%	11.7%	8.3%	8.4%	8.2%	8.3%	8.2%
130% FPL	12.3%	12.7%	12.7%	12.7%	12.7%	8.7%	8.6%	8.9%	8.8%	9.0%
135% FPL	12.9%	13.3%	13.4%	13.6%	13.6%	9.1%	9.2%	9.5%	9.5%	9.5%
140% FPL	13.1%	13.4%	13.6%	13.5%	13.6%	9.4%	9.4%	9.3%	9.5%	9.5%
145% FPL	13.6%	13.7%	13.5%	13.6%	13.5%	9.7%	9.6%	9.4%	9.6%	9.5%
150% FPL	14.1%	13.7%	13.7%	13.5%	13.5%	9.7%	9.7%	9.5%	9.6%	9.5%
155% FPL	14.6%	14.0%	13.9%	13.6%	13.5%	10.0%	9.9%	9.6%	9.5%	9.5%
160% FPL	14.7%	14.3%	13.8%	13.7%	13.4%	10.3%	9.8%	9.7%	9.5%	9.5%
165% FPL	14.5%	14.3%	14.0%	13.6%	13.4%	10.3%	10.0%	9.8%	9.5%	9.3%
170% FPL	14.7%	14.5%	13.9%	13.6%	13.4%	10.2%	10.1%	9.9%	9.6%	9.3%
175% FPL	14.5%	14.6%	14.1%	13.7%	13.3%	10.2%	10.3%	9.8%	9.6%	9.3%
180% FPL	14.6%	14.6%	14.2%	13.6%	13.3%	10.2%	10.4%	9.9%	9.6%	9.3%
185% FPL	14.7%	14.6%	14.1%	13.7%	13.2%	10.2%	10.5%	9.9%	9.5%	9.3%
190% FPL	14.6%	14.6%	14.3%	13.7%	13.2%	10.4%	10.6%	10.0%	9.5%	9.3%
195% FPL	14.3%	14.6%	14.4%	13.7%	13.3%	10.1%	10.6%	10.1%	9.6%	9.3%
200% FPL	14.8%	14.6%	14.3%	13.7%	13.2%	10.3%	10.7%	10.1%	9.6%	9.2%

Governor's Proposal: Copayment as a Percent of Income

	Licensed Copay as a Percent of Income					Certified Copay as a Percent of Income				
	Children in Subsidized Care					Children in Subsidized Care				
	1	2	3	4	5+	1	2	3	4	5+
70% FPL	2.7%	3.7%	4.9%	5.3%	6.0%	1.3%	2.7%	3.6%	3.8%	4.3%
75% FPL	2.5%	4.5%	5.4%	6.0%	6.5%	1.9%	3.0%	3.7%	4.3%	4.3%
80% FPL	3.5%	4.7%	5.5%	6.3%	6.7%	2.9%	3.3%	3.9%	4.7%	4.7%
85% FPL	5.0%	5.7%	6.2%	6.6%	7.1%	3.3%	4.0%	4.4%	4.4%	4.9%
90% FPL	5.2%	6.7%	7.3%	7.7%	8.0%	3.7%	4.6%	4.8%	5.3%	5.7%
95% FPL	6.4%	7.5%	8.5%	8.7%	9.3%	4.5%	5.5%	5.9%	6.2%	6.4%
100% FPL	6.6%	7.9%	8.4%	9.1%	9.3%	4.7%	5.2%	5.9%	6.4%	6.5%
105% FPL	7.6%	8.2%	8.9%	9.1%	9.3%	5.4%	5.7%	6.2%	6.3%	6.6%
110% FPL	8.1%	8.9%	8.8%	9.2%	9.3%	6.0%	6.1%	6.2%	6.3%	6.6%
115% FPL	8.6%	8.8%	9.2%	9.3%	9.3%	5.7%	6.2%	6.5%	6.5%	6.7%
120% FPL	9.0%	9.4%	9.3%	9.3%	9.5%	6.3%	6.6%	6.5%	6.7%	6.6%
125% FPL	9.8%	9.3%	9.5%	9.4%	9.3%	6.8%	6.6%	6.5%	6.6%	6.5%
130% FPL	9.8%	10.1%	10.1%	10.2%	10.2%	6.9%	6.9%	7.2%	7.0%	7.2%
135% FPL	10.5%	10.5%	10.6%	10.9%	10.9%	7.3%	7.2%	7.6%	7.5%	7.6%
140% FPL	10.4%	10.7%	10.9%	10.8%	11.0%	7.4%	7.5%	7.6%	7.6%	7.6%
145% FPL	11.0%	10.9%	10.7%	10.8%	10.8%	7.8%	7.8%	7.5%	7.7%	7.5%
150% FPL	11.3%	11.0%	11.0%	10.8%	10.9%	7.8%	7.7%	7.7%	7.6%	7.6%
155% FPL	11.5%	11.1%	11.0%	10.8%	10.8%	7.9%	8.0%	7.6%	7.6%	7.5%
160% FPL	11.8%	11.5%	11.1%	11.0%	10.8%	8.2%	8.0%	7.8%	7.7%	7.6%
165% FPL	11.7%	11.3%	11.1%	10.8%	10.7%	8.3%	7.9%	7.9%	7.6%	7.5%
170% FPL	11.6%	11.7%	11.2%	11.0%	10.7%	8.3%	8.2%	7.9%	7.7%	7.4%
175% FPL	11.6%	11.6%	11.2%	11.0%	10.6%	8.1%	8.1%	7.8%	7.6%	7.4%
180% FPL	11.8%	11.7%	11.4%	11.0%	10.6%	8.1%	8.3%	8.0%	7.7%	7.5%
185% FPL	11.7%	11.7%	11.3%	10.9%	10.6%	8.1%	8.5%	7.9%	7.6%	7.4%
190% FPL	11.6%	11.6%	11.5%	10.9%	10.5%	8.4%	8.5%	8.0%	7.6%	7.5%
195% FPL	11.5%	11.7%	11.5%	10.9%	10.6%	8.0%	8.5%	8.0%	7.7%	7.4%
200% FPL	11.8%	11.6%	11.5%	10.9%	10.5%	8.2%	8.6%	8.1%	7.7%	7.3%

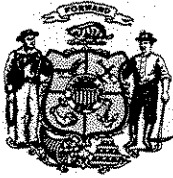
ATTACHMENT 5

Change in Weekly Copay Amount Under Governor's Proposal

	Change in Weekly Licensed Copay					Change in Weekly Certified Copay					
	Children in Subsidized Care					Children in Subsidized Care					
	1	2	3	4	5+	1	2	3	4	5+	5+
70% FPL	-\$1	-\$2	-\$3	-\$4	-\$5	-\$1	-\$1	-\$2	-\$3	-\$3	-\$3
75% FPL	-1	-2	-3	-4	-5	-1	-1	-2	-3	-3	-4
80% FPL	-2	-3	-4	-5	-6	-1	-2	-3	-4	-4	-4
85% FPL	-2	-3	-4	-5	-6	-1	-2	-3	-4	-5	-6
90% FPL	-3	-4	-5	-7	-8	-2	-3	-4	-5	-6	-7
95% FPL	-3	-5	-6	-8	-10	-2	-3	-4	-6	-7	-7
100% FPL	-4	-5	-7	-8	-10	-3	-4	-5	-6	-7	-7
105% FPL	-4	-6	-7	-9	-11	-3	-4	-5	-6	-7	-8
110% FPL	-5	-6	-8	-10	-11	-3	-4	-5	-6	-7	-8
115% FPL	-5	-7	-8	-10	-12	-4	-5	-6	-7	-8	-8
120% FPL	-6	-7	-9	-11	-12	-4	-5	-6	-7	-8	-8
125% FPL	-6	-8	-10	-11	-13	-4	-6	-7	-8	-9	-9
130% FPL	-7	-9	-11	-12	-14	-5	-6	-7	-9	-10	-10
135% FPL	-7	-10	-12	-14	-16	-5	-7	-8	-10	-11	-11
140% FPL	-8	-10	-12	-14	-16	-6	-7	-8	-10	-11	-12
145% FPL	-8	-11	-13	-15	-17	-6	-7	-9	-10	-12	-12
150% FPL	-9	-11	-13	-15	-17	-6	-8	-9	-11	-12	-12
155% FPL	-10	-12	-14	-16	-18	-7	-8	-10	-11	-13	-13
160% FPL	-10	-12	-14	-16	-18	-7	-8	-10	-11	-13	-13
165% FPL	-10	-13	-15	-17	-19	-7	-9	-10	-12	-13	-13
170% FPL	-11	-13	-15	-17	-20	-7	-9	-11	-12	-14	-14
175% FPL	-11	-14	-16	-18	-20	-8	-10	-11	-13	-14	-14
180% FPL	-11	-14	-16	-18	-21	-8	-10	-11	-13	-14	-14
185% FPL	-12	-14	-17	-19	-21	-8	-10	-12	-13	-15	-15
190% FPL	-12	-15	-17	-20	-22	-8	-11	-12	-14	-15	-15
195% FPL	-12	-15	-18	-20	-22	-9	-11	-13	-14	-16	-16
200% FPL	-13	-16	-18	-21	-23	-9	-11	-13	-14	-16	-16

Change in Annual Copay Amount Under Governor's Proposal

	Change in Annual Licensed Copay					Change in Annual Certified Copay				
	Children in Subsidized Care					Children in Subsidized Care				
	1	2	3	4	5+	1	2	3	4	5+
70% FPL	-\$52	-\$104	-\$156	-\$208	-\$260	-\$52	-\$52	-\$104	-\$156	-\$156
75% FPL	-52	-104	-156	-208	-260	-52	-52	-104	-156	-208
80% FPL	-104	-156	-208	-260	-312	-52	-104	-156	-208	-208
85% FPL	-104	-156	-208	-260	-312	-52	-104	-156	-208	-208
90% FPL	-156	-208	-260	-364	-416	-104	-156	-208	-260	-312
95% FPL	-156	-260	-312	-416	-520	-104	-156	-208	-312	-364
100% FPL	-208	-260	-364	-416	-520	-156	-208	-260	-312	-364
105% FPL	-208	-312	-364	-468	-572	-156	-208	-260	-312	-364
110% FPL	-260	-312	-416	-520	-572	-156	-208	-312	-364	-416
115% FPL	-260	-364	-416	-520	-624	-208	-260	-312	-364	-416
120% FPL	-312	-364	-468	-572	-624	-208	-260	-312	-364	-416
125% FPL	-312	-416	-520	-572	-676	-208	-312	-364	-416	-468
130% FPL	-364	-468	-572	-624	-728	-260	-312	-364	-468	-520
135% FPL	-364	-520	-624	-728	-832	-260	-364	-416	-520	-572
140% FPL	-416	-520	-624	-728	-832	-312	-364	-416	-520	-572
145% FPL	-416	-572	-676	-780	-884	-312	-364	-468	-520	-624
150% FPL	-468	-572	-676	-780	-884	-312	-416	-468	-572	-624
155% FPL	-520	-624	-728	-832	-936	-364	-416	-520	-572	-676
160% FPL	-520	-624	-728	-832	-936	-364	-416	-520	-572	-676
165% FPL	-520	-676	-780	-884	-988	-364	-468	-520	-624	-676
170% FPL	-572	-676	-780	-884	-1,040	-364	-468	-572	-624	-728
175% FPL	-572	-728	-832	-936	-1,040	-416	-520	-572	-676	-728
180% FPL	-572	-728	-832	-936	-1,092	-416	-520	-572	-676	-728
185% FPL	-624	-728	-884	-988	-1,092	-416	-520	-624	-676	-780
190% FPL	-624	-780	-884	-1,040	-1,144	-416	-572	-624	-728	-780
195% FPL	-624	-780	-936	-1,040	-1,144	-468	-572	-676	-728	-832
200% FPL	-676	-832	-936	-1,092	-1,196	-468	-572	-676	-728	-832



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June 1, 1999

Joint Committee on Finance

Paper #1089

TANF

Indirect Child Care (DWD -- Economic Support and Child Care)

[LFB 1999-01 Budget Summary: Page 687, #17]

CURRENT LAW

The indirect child care allocation funds the Office of Child Care in the Department of Workforce Development (DWD) and other activities designed to improve the quality and availability of child care. The allocation is currently \$6,002,400 for each fiscal year and is funded entirely with federal dollars from the child care development block grant. An additional \$734,900 was transferred to the indirect allocation under s. 16.54 in December, 1998, to fund costs associated with the Office of Child Care (\$444,900) and the implementation of the safe child care proposal (\$290,000). Finally, expenditure authority was increased by \$812,300 in March for child care licensing positions in the Department of Health and Family Services (DHFS) to replace reduced funds from the social services block grant.

GOVERNOR

Increase funding for indirect child care by \$12,976,300 FED in 1999-00 and \$10,831,600 FED in 2000-01. Total funding of \$18,978,700 in 1999-00 and \$16,834,000 in 2000-01 would be allocated under the bill for the indirect child care programs. The first column in the following table represents base level funding for each program (prior to the s. 16.54 request). The second and third columns show the total funding under the Governor's recommendation and the last two columns show the proposed change in funding.

	Base	Total		Change	
		1999-00	2000-01	1999-00	2000-01
Funding for DWD					
Office of Child Care	\$350,700	\$794,600	\$794,600	\$443,900	\$443,900
Resource & Referral Agencies	1,360,000	2,000,000	2,000,000	640,000	640,000
Start-Up & Expansion Grants	366,400	366,400	366,400	0	0
Quality Improvement Grants	1,707,900	1,707,900	1,707,900	0	0
Training & Technical Assistance	530,000	530,000	530,000	0	0
Safe Child Care	0	580,000	580,000	580,000	580,000
Local Resource & Referral Grants	0	3,400,000	3,400,000	3,400,000	3,400,000
Low-Income Subsidy	0	1,000,000	1,000,000	1,000,000	1,000,000
Revolving Loans	0	3,200,000	0	3,200,000	0
Child Care Careers Education	0	1,000,000	2,500,000	1,000,000	2,500,000
Automated Provider File	0	600,000	0	600,000	0
Subtotal	\$4,315,000	\$15,178,900	\$12,878,900	\$10,863,900	\$8,563,900
Funding for DHFS					
Licensing Staff	\$1,687,400	\$3,596,900	\$3,745,200	\$1,909,500	\$2,057,800
Background Checks	0	20,700	27,700	20,700	27,700
Milwaukee County Foster Parent Day Care Administration	0	182,200	182,200	182,200	182,200
Subtotal	\$1,687,400	\$3,799,800	\$3,955,100	\$2,112,400	\$2,267,700
TOTAL	\$6,002,400	\$18,978,700	\$16,834,000	\$12,976,300	\$10,831,600

Of the five existing indirect child care programs, two would receive increased funding under the bill (\$1,083,900 in each year) and three would maintain the same level of funding. Six new programs would be created at a cost of \$9,780,000 in 1999-00 and \$7,480,000 in 2000-01. Finally, the bill would increase funding for DHFS by \$2,112,400 in 1999-00 and \$2,267,700 in 2000-01, by increasing the funding for licensing staff and providing funding for child care provider background checks and administration of the Milwaukee County foster parent day care program.

The bill would also expand the current child care start-up and expansion grant program to allow for low-interest loans. DWD would be directed to establish guidelines for loan eligibility. In addition, the bill would direct DWD to attempt to award grants and loans to organizations that provide child care for sick children and child care providers that employ W-2 participants or former participants.

DISCUSSION POINTS

Existing Programs

- Under the bill, there would be no change in funding for start-up and expansion grants, quality improvement grants and training and technical assistance. The start-up and expansion grants are used to increase the availability of quality, licensed child care services by providing grants for employer-sponsored care, child care for student parents, Head Start wrap-around services and collaborative services (centers where children receive services from more than one entity). Total

grants awarded under this program have averaged \$400,000 per year for the last three years, which exceeds the funding provided under the bill. The bill could be modified to increase funding by \$33,600 each year to provide a total of \$400,000 annually.

2. Grants under the quality improvement program have averaged \$1.4 million annually in recent years. Quality improvement grants are used to assist providers in achieving the quality standards for accreditation. Under current law, providers that are accredited by certain national or state organizations are eligible for higher child care subsidies. Accredited providers may also receive grants for staff retention and training. Since grants made under this program have historically been lower than the amount provided, funding for this program could be reduced by \$300,000 per year.

3. Training and technical assistance grants are used to provide information and consultation for child care providers regarding efforts to maintain or expand capacity or to improve services. The Department has historically allocated the full amount provided for this program.

4. The bill would increase funding for Wisconsin's 17 local child care resource and referral (CCR) agencies by \$640,000 each year. The CCRs help parents select child care by providing information on available providers and helping to locate specialized care (such as care for children with disabilities, sick children and for families who need care during non-traditional hours). The agencies also work to increase the supply of child care and offer technical assistance and training. Finally, CCR staff work with communities, school districts, employers and W-2 agencies to solve child care problems. Although the agencies serve all families regardless of income, 37% of inquiries made in 1998 were from families who were known to be receiving a child care subsidy.

According to a 1998 report, CCR agencies received referral requests from 21,688 families for 32,743 children statewide, which was a 23% increase since 1995. The requests for child care for children with disabilities (983) increased by 37% since 1997. A total of 839 training events for 15,633 child care staff were provided in 1998, which was an increase of 15% over the prior year.

The funding in the bill represents a 47% increase over the base. Since the figures provided in the report point to a 25% increase in activity, funding for the CCR agencies could be reduced by \$300,000 each year to provide a 25% increase in funding (\$1,700,000 in total each year).

Based on a review of other state's local CCR agencies, it was found that annual funding ranged from \$150,000 to \$175,000 per agency. The current funding level provides an average of \$106,700 for each CCR agency and the bill would increase this level to \$156,900 each (these amounts include the 25% local match requirement), which is comparable to other states. In addition, because the responsibilities of the CCR agencies would increase under the bill due to the new programs that would be established, the recommended funding level could be approved.

5. The funding provided under the bill for the Office of Child Care is similar to the level approved by the Committee under the December, 1998, s. 16.54 request. The increase over the base reflects an effort by the Division of Economic Support to properly allocate administrative costs

to the Office.

New Indirect Programs

6. The bill includes one-time funding of \$600,000 to establish a statewide automated file of licensed and certified providers. The file would link state licensing data and county certification data and make it available to DWD, DHFS, counties, local CCRr agencies, local W-2 agencies and job centers. The file would be used by the state and counties to share information on enforcement actions and revocations, to track trends in the supply of child care and to provide information to W-2 agencies to ensure that authorizations are made only to regulated providers. Currently, much of this information cannot be shared electronically. The funding requested includes \$425,000 for staff costs related to program development and \$175,000 for hardware that would be located in the county offices.

7. The recommended funding for the safe child care program reflects the same amount approved in December, on an annualized basis. This money is used to conduct annual on-site safety inspections of certified day care facilities (certified providers care for a small number of children and are certified by the county rather than being licensed by the state) and to provide training and materials (such as smoke detectors and first aid kits) to providers.

8. The Governor recommends providing \$8,600,000 in 1999-00 and \$6,900,000 in 2000-01 for four new grant and loan programs: local resource and referral grants, low-income subsidy grants, revolving loans and careers education grants. There is no data available to reliably estimate the level of demand for these programs. However, the Committee could modify the bill by eliminating one or more of the programs or by increasing or reducing the amount of funding provided. If funding is reduced, the savings could be used for direct child care subsidies or other components of the Wisconsin Works program. A description of the new programs follows:

a. The bill would provide \$3.4 million each year for local resource and referral grants to be administered by the local CCRr agencies. The grants would be used to start up, expand or improve child care in the 17 CCRr regions. The grant criteria would be developed by DWD and the local agencies. Grants would be awarded based on the particular child care needs of each region. In addition, \$1.0 million would be set-aside each year to address problems associated with child care for sick children.

b. Low-income subsidy grants of \$1.0 million annually would be earmarked for child care programs serving families receiving a child care subsidy. These grants would also be administered by the CCRr agencies. Grant recipients would have to have been in business for at least one year and complete training on how the subsidy program works and on good business practices in order to be eligible for a grant.

c. A total of \$3.2 million would be provided in the first year for the creation of a low-interest revolving loan program to be administered by the Wisconsin Housing and Economic Development Authority (WHEDA). Loan monies could be used for the start-up, expansion or

improvement of child care facilities. Special efforts would be made to meet the needs of employers and apartment complexes. It is anticipated that the maximum loan would be \$50,000. Loans could not be used for construction that adds square footage to or substantially enhances a facility by adding 30% or more to the value of the building. Providers would also have to agree to make services available to subsidy recipients until the loan is fully repaid.

The Authority is currently in the process of designing its own program to provide loan guarantees and interest subsidies for child care providers. Specifically, WHEDA has indicated that it will provide \$4 million in loan guarantees for providers that serve small communities and urban areas and to establish child care for sick children. A total of \$500,000 will also be allocated for subsidizing the interest costs of construction loans for new child care centers. Both of these programs would be funded from WHEDA's revenues. Based on a discussion with staff at WHEDA, these two programs are planned to be operational by the summer of 1999 and will be offered regardless of whether the Governor's revolving loan program is enacted into law or not.

d. The bill would provide \$1.0 million in the first year and \$2.5 million in the second year for child care careers education. This funding would be used to recruit and retain child care workers and to increase their training and education. Funding would be used to provide scholarships to new or existing workers to attend specified training, with the incentive of higher compensation. This program would be administered by a private vendor, under contract with the state. According to the Day Care Services Association of North Carolina, a similar program operated in that state resulted in increased compensation and lower turnover for child care workers who received a scholarship or training.

9. The bill would reduce funding for the direct child care subsidy program by \$39.0 million over the biennium and increase funding for the indirect programs by \$23.8 million. However, since the reestimate of the direct program exceeds the amount budgeted by \$23.7 million over the biennium (these reestimates are described in a separate issue paper prepared by this office), the Committee may wish to eliminate funding for some or all of the new indirect programs. In making this decision, the Committee could consider that, as noted above, the Department has historically provided grants in amounts that were less than allocated.

Funding for DHFS

10. A child care center that provides care for four or more children under the age of seven must be licensed by DHFS. As part of the licensing process, the Department conducts background checks on providers and their staff. The bill would increase funding from the indirect child care allocation for DHFS child care licensing staff to offset a reduction in the federal social services block grant. In addition, the bill would provide funding from the indirect allocation for the Office of Legal Council for background checks to replace GPR funding that is currently provided for this activity.

11. The bill would also provide funding from the child care indirect allocation for administration of the Milwaukee County foster parent day care program in order to replace GPR

that is currently provided for this program.

ALTERNATIVES

1. Adopt the Governor's recommendation to increase funding for the indirect child care programs by \$12,976,300 in 1999-00 and \$10,831,600 in 2000-01.

Existing Programs

2. Modify the Governor's recommendation related to the five existing child care programs by adopting one or more of the following alternatives:

a. Increase funding for start-up and expansion grants by \$33,600 FED annually to reflect historical expenditures.

Alternative 2a	FED
1999-01 FUNDING (Change to Bill)	\$67,200

b. Decrease funding for quality improvement grants by \$300,000 FED annually to reflect expenditures in recent years.

Alternative 2b	FED
1999-01 FUNDING (Change to Bill)	- \$600,000

c. Decrease funding for the local CCRR agencies by \$300,000 FED annually to reflect recent changes in activity.

Alternative 2c	FED
1999-01 FUNDING (Change to Bill)	- \$600,000

New Indirect Programs

3. Modify the Governor's recommendation related to the six new indirect child care programs by adopting one or more of the following alternatives:

a. Eliminate the safe child care program and decrease funding by \$580,000 FED annually.

Alternative 3a	FED
1999-01 FUNDING (Change to Bill)	- \$1,160,000

b. Eliminate the local resource and referral grant program and decrease funding by \$3,400,000 FED annually.

<u>Alternative 3b</u>	<u>FED</u>
1999-01 FUNDING (Change to Bill)	- \$6,800,000

c. Eliminate the low-income subsidy program and decrease funding by \$1,000,000 FED annually.

<u>Alternative 3c</u>	<u>FED</u>
1999-01 FUNDING (Change to Bill)	- \$2,000,000

d. Eliminate the revolving loan program for child care start-up and expansion and decrease funding by \$3,200,000 FED in 1999-00.

<u>Alternative 3d</u>	<u>FED</u>
1999-01 FUNDING (Change to Bill)	- \$3,200,000

e. Eliminate the child care careers education program and decrease funding by \$1,000,000 FED in 1999-00 and \$2,500,000 in 2000-01.

<u>Alternative 3e</u>	<u>FED</u>
1999-01 FUNDING (Change to Bill)	- \$3,500,000

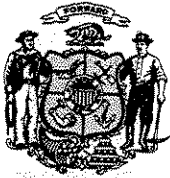
f. Eliminate funding for the automated provider file and decrease funding by \$600,000 FED in 1999-00.

<u>Alternative 3f</u>	<u>FED</u>
1999-01 FUNDING (Change to Bill)	- \$600,000

4. Maintain current law. Decrease funding by \$12,976,300 FED in 1999-00 and \$10,831,600 FED in 2000-01.

<u>Alternative 4</u>	<u>FED</u>
1999-01 FUNDING (Change to Bill)	- \$23,807,900

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June 1, 1999

Joint Committee on Finance

Paper #1090

TANF

Child Care Administration by W-2 Agencies (DWD -- Economic Support and Child Care)

[LFB 1999-01 Budget Summary: Page 689, #19]

CURRENT LAW

Currently, when a parent applies for child care assistance, eligibility is determined by the Wisconsin Works (W-2) agency. Once an individual has been determined as eligible for a child care subsidy, the W-2 agency is required to refer the individual to a county department of social or human services. The county departments assist eligible individuals by: (a) determining an individual's copayment; (b) providing a voucher or otherwise reimbursing child care providers; and (c) assisting parents to identify and select appropriate child care. In addition, the county departments administer the child care assistance program by: (a) setting maximum reimbursement rates for providers; (b) certifying providers not licensed by the state and supplying information to such providers; and (c) refusing to pay providers who have been convicted of crimes that relate to the care of children. In addition, the county departments have certain responsibilities related to criminal history and child abuse record background checks of providers and their employees.

GOVERNOR

Allow DWD to require a W-2 agency, tribal governing body or county department of social or human services to administer the child care assistance program in that county, with the exception of counties with a population of 500,000 or more (Milwaukee County), in which case DWD would have to require the W-2 agency to administer the program. This provision would first apply to W-2 agencies that enter into or renew contracts on the effective date of the bill. The entity required by DWD to administer the child care program would be referred to as the "administering agency."

Under the bill, the administering agency would conduct the child care activities now done by the county departments, with one exception. The bill would allow DWD to select either the administering agency or local child care resource and referral (CCRR) agency to set the maximum child care reimbursement rates for licensed providers. The rates for certified providers would be set by the administering agency under the bill.

DISCUSSION POINTS

1. Currently, the county department and the W-2 agency are the same entity in 63 counties, which allows parents to work with a single agency to receive child care benefits. In the other nine counties, including Milwaukee, where the county department and the W-2 agency are separate entities, parents are required to work with the W-2 agency for eligibility to be determined and then, if approved, work with the county for the subsidy to be authorized, the copayment amount to be determined and for other child care assistance.

2. The administration indicates that the bill recommendation was made so that parents in Milwaukee County would only have to work with a single agency for all child care services. It would also allow W-2 participants to work with only the W-2 agency for both W-2 program and child care benefits. Of all Milwaukee County families who were authorized to receive child care benefits for April, 34.8% were also W-2 participants.

3. Since the W-2 child care program began in September of 1997, concerns have been expressed regarding Milwaukee County's administration of the program, particularly parents not receiving timely access to child care, child care providers not being paid, the certifying of questionable providers and county responses to provider inquiries. In addition, Milwaukee County was not able to provide reliable child care data.

4. The administration also indicated that having separate entities administer the child care program results in a lack of communication and accountability, which has made it difficult to determine the cause of problems and how these problems could be resolved.

5. DWD would be permitted, but not required, to appoint the W-2 agency as the administering agency for child care in all counties other than Milwaukee. It was indicated that because child care participation in the other eight counties is relatively small, the problems associated with having separate entities responsible for the child care program have not been as significant. It is likely that DWD would continue to retain the county department as the administering agency in the other counties.

6. The existing child care administration contracts with the 63 county departments that are also the W-2 agency are separate from the W-2 program contracts and are not part of the profit calculation. If the bill provision is approved, the child care administration contract with the W-2 agencies in Milwaukee County would also be separate from, or an addendum to, the W-2 program contracts and would not factor into the profit calculation.

7. Representatives for Milwaukee County have indicated that the County should retain its current role in the child care program. In 1998, the County took actions to resolve the problems noted above by assigning additional staff and taking other measures to speed up the subsidy authorization process, visiting certified providers with subsidy-funded children and increasing training and technical assistance for providers. County staff have also been placed in the W-2 offices in order to speed up the authorization process and to be available for program participants. In addition, Milwaukee County converted its child care payment and data system to the statewide Client Assistance for Reemployment and Economic Support (CARES) system in March of this year, which should improve the quality of the county's data.

8. In addition, Milwaukee County representatives have indicated that transferring the child care administrative functions to the W-2 agencies in order to create a single administrative agency for W-2 participants would only impact about one-third of child care beneficiaries (as noted above, 34.8% of Milwaukee County's child care recipients also participate in the W-2 program). The County has located staff in the W-2 offices in order to assist these individuals.

9. Since Milwaukee County has made efforts to improve its administration of the child care program and has only recently become part of the state's CARES system, an alternative to the Governor's recommendation could be to maintain current law. Milwaukee County's performance could continue to be monitored and if concerns persist, the functions could be transferred to the W-2 agencies in the future.

10. The bill inadvertently omitted a cross-reference related to the definition of an "administering agency." If the Governor's recommendation is adopted, the bill should be modified to correct this error.

ALTERNATIVES

1. Adopt the Governor's recommendation to allow DWD to require a W-2 agency, tribal governing body or county department of social or human services to administer the child care assistance program in that county and direct DWD to require the W-2 agency in Milwaukee County to administer the program. Add a cross-reference under the definition of "administering agency."

2. Maintain current law.

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June 1, 1999

Joint Committee on Finance

Paper #1091

Extend Child Care Careers Coordinator (DWD -- Economic Support and Child Care)

[LFB 1999-01 Budget Summary: Page 691, #21]

CURRENT LAW

A two-year child care careers coordinator project position was first authorized in the Department on January 1, 1998. This position is funded with monies from the federal child care development block grant at a cost of \$45,600 per year.

GOVERNOR

Provide \$22,800 FED in 1999-00 and \$45,600 FED in 2000-01 to extend the child care careers coordinator project position for two years (from January 1, 2000, through December 31, 2002).

DISCUSSION POINTS

1. The project position was created in response to the growth in the need for child care services due to the implementation of the W-2 program. The position is located in the Job Seeker Services Bureau within the Division of Workforce Excellence. The position also works with the Office of Child Care in the Division of Economic Support and the Department of Health and Family Services in coordinating statewide efforts with W-2 agencies, job centers and child care agencies to recruit, train and retain additional child care providers. In addition, the position is responsible for analyzing and preparing recommendations and reports on the child care workforce, including training status and needs, supply and demand, turnover and compensation.

2. The extension would allow the position to continue to perform these functions. The administration indicated that two years was not sufficient time for the position to complete certain

tasks. In addition, as part of the biennial budget, the Governor recommends providing \$3.5 million over the biennium for child care careers grants (more information on this proposal is provided in a separate issue paper prepared by this office). The project position would be responsible for determining what scholarships and credentials would be offered under the new program.

3. Based on a review of vacant positions in the Division of Economic Support for the period ending March 27, 1999, there are 48 positions that have been vacant for seven months or longer; 10 have been vacant for 13 months or more. The Division of Economic Support is also in the process of reorganizing, which is expected to be completed by the end of the fiscal year. As part of the Committee's deliberations on child support in April, a total of 15 new positions recommended by the Governor were deleted by the Committee. The Department was directed to reallocate for the positions instead, leaving 33 positions that could still be reallocated.

4. As an alternative to the Governor's recommendation, the position extension could be deleted and the Department could be authorized to reallocate a vacant position for the functions carried out by the coordinator.

ALTERNATIVES

1. Adopt the Governor's recommendation to extend the project position for two years.
2. Delete the Governor's recommendation and allow the position to terminate on December 31, 1999. Reduce federal funding by \$22,800 in 1999-00 and \$45,600 in 2000-01 to reflect the elimination of the position.

<u>Alternative 2</u>	<u>FED</u>
1999-01 FUNDING (Change to Bill)	- \$68,400
2000-01 POSITIONS (Change to Bill)	- 1.00

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June 1, 1999

Joint Committee on Finance

Paper #1092

TANF

Partial Community Service Job Participation (DWD -- Economic Support and Child Care)

[LFB 1999-01 Budget Summary: Page 681, #7]

CURRENT LAW

Under current law, Wisconsin Works (W-2) agencies may assign a participant in a community service job (CSJ) placement under the program to work activities for up to 30 hours per week, and to additional educational and training activities for up to 10 hours per week. A participant in a CSJ receives a monthly grant of \$673. The grant is reduced by \$5.15 for every hour that the participant misses work or education or training activities without good cause. If a CSJ participant is required to work fewer than 30 hours per week because the participant has unsubsidized employment, the grant amount may be reduced by a prorated amount equal to the product of \$5.15 and the difference between 30 and the number of hours the participant is required to work in the CSJ.

GOVERNOR

Provide that, if a participant in a community service job is required to work fewer than 30 hours per week because the participant has unsubsidized employment, the W-2 agency may reduce the monthly grant in accordance with a schedule developed by the Department of Workforce Development (DWD) by rule.

DISCUSSION POINTS

1. The Legislature approved the partial CSJ provisions under 1997 Act 27 (the 1997-99 biennial budget). These provisions apply only to participants who have part-time unsubsidized jobs.

2. The \$637 monthly cash benefit for a CSJ participant (on an annualized basis, assuming participation for 30 hours per week) is equivalent to \$5.18 per hour, which is slightly higher than the current minimum wage of \$5.15 per hour. A CSJ participant who is assigned to 20 hours of work per week would be paid the equivalent wage of \$7.76 per hour. Without the ability to prorate the CSJ grant for participants who already have a part-time job, the W-2 agency could be faced with a difficult choice. If the agency requires the participant to work in the CSJ job for 30 hours per week, it could jeopardize the participant's ability to maintain the unsubsidized job. If fewer hours are required for the CSJ, the equivalent wage could increase to the point where the CSJ is more attractive than additional unsubsidized work. Both of these outcomes would be contrary to the intent of the W-2 program.

3. According to DWD, the ability for W-2 agencies to provide a partial CSJ grant has not yet been implemented primarily because this provision required changes to the CARES computer system which could not be made simultaneously with other system modifications. Consequently, changes in the system that are needed to implement the partial CSJ have been delayed while the Department has been working on the BadgerCare program, Y2K and the welfare-to-work program. W-2 agencies were prohibited from manually prorating the grant amount because the Department determined that a manual calculation would be error prone, coordinating the payment with the food stamp calculation would be difficult, and there would be an inability to track the data for federal reporting purposes.

4. The Department believes that the current provision requires a complicated calculation of the partial CSJ grant, even with automation. Under current law, the calculation of the benefit amount for partial CSJ participants could result in 30 different grant amounts, depending on the number of hours assigned to various participants.

5. Furthermore, the calculation is based on the number of hours of work activity that a participant is assigned, which could fluctuate on a weekly basis. All other benefits for trial job subsidies, community service jobs and transitional placements fluctuate from month to month based only on participant sanctions or a change in the placement category for the participant (from a transitional placement to a CSJ, for example). When a financial employment planner (FEP) adjusts the required hours of participation in a CSJ assignment for a participant, the overall benefit amount does not change. Under the current calculation for the partial CSJ, however, the FEP would have to modify the benefit amount each week for the participant, increasing chances for error and resulting in additional administrative procedures.

6. Under the Governor's proposal, the Department would determine the benefit amount for partial CSJ placements by rule. Adopting the Governor's proposal would give a significant amount of flexibility to the Department to establish a schedule of benefits for partial CSJ participants.

7. All other benefits for W-2 employment positions are specified statutorily. It can be argued that the benefit amounts are of critical importance to the entire W-2 program and changes to the benefits should only be made with approval of the Legislature. Therefore, the benefit amount

for the partial community service job should also be specified in the statutes.

8. The Committee could consider specifying in the statutes a schedule of benefits that would be easier for the Department and the W-2 agencies to administer. Under this option, a W-2 agency would be allowed to place an individual who has a part-time unsubsidized job into a partial CSJ placement. This placement would differ from any other CSJ placement only in the calculation of the grant amount. The grant amount for a partial CSJ placement would be based on the FEP's determination of the appropriate number of hours for a participant at the time of the application process. Once determined, the benefit amount would not change for short-term fluctuations in the number of hours of required work activity. Rather, the benefit would only change based on a regularly-scheduled case review by the FEP. Four benefit amounts could be provided as follows:

a. If the FEP determined that it was appropriate to assign a participant up to 10 hours of work activity per week, the grant amount would be prorated by 1/3, (10 hours = 1/3 of 30 hours), and the monthly benefit amount would be \$224 (1/3 of \$673);

b. For an assignment of greater than 10 and up to 15 hours of work activity per week, the grant would be prorated by 1/2, and the monthly benefit would be \$337;

c. For an assignment of greater than 15 and up to 20 hours of work activity per week, the grant would be prorated by 2/3, and the benefit amount would be \$449; and

d. For an assignment of more than 20 hours of participation per week, the grant amount would be \$673.

9. Maintaining current law would provide for a more precise calculation of the individual's benefit amount and would allow for weekly fluctuations in the number of hours a participant might be assigned to work activities that could take into consideration the participant's work schedule in his or her unsubsidized job.

10. However, under the above schedule of benefits, the FEP could still assign various work hours if the FEP determined it was reasonable to do so. This would be consistent with other W-2 employment positions in that each participant in an employment position may receive the same grant amount but have different required hours of work activity depending on individual circumstances. Moreover, having a schedule of benefits would provide for a less complicated calculation of the grant amount, would be easier to administer and would meet the goal of allowing the W-2 agency to provide a partial grant to an individual who has an unsubsidized job.

ALTERNATIVES

1. Approve the Governor's proposal to allow a W-2 agency to reduce the monthly grant for a participant in a community service job that is required to work fewer than 30 hours per week because the participant has an unsubsidized job in accordance with a schedule developed by the

Department by rule.

2. Eliminate the Governor's provision. Instead, modify current law relating to partial CSJ placements by specifying in the statutes that the monthly grant amount would be prorated as follows: (a) for an assignment of work activities up to 10 hours per week, the grant amount would be prorated by 1/3; (b) for an assignment of work activities of 10 to 15 hours per week, by 1/2; (c) for an assignment of work activities of 15 to 20 hours per week, by 2/3; and (d) for an assignment of work activities in excess of 20 hours per week, the grant amount would be \$673. Specify that the grant amount would be based on the financial employment planner's determination of the appropriate number of hours for a participant at the time of the application process or a regularly-scheduled review.

3. Maintain current law. Under this option, if a participant in a community service job is required to work fewer than 30 hours per week because the participant has unsubsidized employment the grant amount may be reduced by a prorated amount equal to the product of \$5.15 and the difference between 30 and the number of hours the participant is required to work.

Prepared by: Joanne T. Simpson



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June 1, 1999

Joint Committee on Finance

Paper #1093

TANF

Wage-Paying Community Service Job (DWD -- Economic Support and Child Care)

[LFB 1999-01 Budget Summary: Page 682, #8]

CURRENT LAW

Current law regarding the Wisconsin Works (W-2) program provides for both grant-paying community service jobs (CSJs) and wage-paying CSJs, as described below.

Grant-Paying CSJs. Participants assigned to a grant-paying CSJ are not paid an hourly wage. Rather, CSJ participants receive a cash grant of \$673 per month. The grant amount is reduced by \$5.15 for every hour that the participant misses required work or educational activities without good cause.

Community service jobs are intended to provide work experience and training to participants, and are limited to projects that the Department of Workforce Development (DWD) determines would serve a useful public purpose or to projects whose cost is wholly or partially offset by revenue generated by such projects. The W-2 agency may require a CSJ participant to work up to 30 hours per week in the CSJ assignment, and to participate in educational and training activities for up to 10 hours per week, for a total of 40 hours per week. Educational and training activities include a course of study for a GED or high school equivalency, technical college courses and educational courses that provide an employment skill.

Participants in grant-paying CSJs are not eligible for the federal or the state earned income tax credit (EITC) because the cash benefit is considered a form of public assistance, rather than a wage. Likewise, the cash grants are not subject to federal and state income and payroll taxes. In addition, state law prohibits participants in community service jobs from being eligible for the homestead tax credit.

Wage-Paying CSJ Pilot Program. Current law provides for a wage-paying CSJ pilot program. Under this program, the Department is required to allow two W-2 agencies in Milwaukee County to place W-2 participants into wage-paying community service jobs. Each agency is allowed to contract with a nonprofit, nonstock corporation to provide employment for a wage-paying CSJ participant. The W-2 agency is required to reimburse the employer for the amounts paid by the employer for the wages and payroll taxes of the participant. In addition, the W-2 agency is required to provide the participant with worker's compensation coverage, unless the employer for whom the participant is performing work provides worker's compensation.

A participant in a wage-paying CSJ would receive the minimum wage for every hour actually worked in the community service job not to exceed 15 hours per week. A wage-paying CSJ participant is not explicitly prohibited from obtaining the state earned income tax credit.

Under the pilot program, a W-2 agency may not place an individual into a wage-paying CSJ unless the individual is working at least 15 hours per week in an unsubsidized job. The W-2 agency may require a participant in a wage-paying CSJ to work either 15 hours per week, or the difference between 40 hours and the number of hours the participant works in an unsubsidized job, whichever is less.

An individual would be allowed to participate in a particular wage-paying community service job for a maximum of three months, with an opportunity for a one-month extension under circumstances approved by the Department. An individual would be allowed to participate in more than one wage-paying community service job, but could not exceed 24 months of participation. The Department may approve an extension to the 24-month limit on a case-by-case basis if the W-2 agency determines that the individual has made all appropriate efforts to find unsubsidized employment and has been unable to find a job due to local labor market conditions.

The current law provisions pertaining to the wage-paying community service job pilot program became effective on February 1, 1999, and will sunset on September 30, 2001.

GOVERNOR

Expand the wage-paying community service job pilot program statewide beginning on January 1, 2001, and eliminate the sunset date for the program.

A W-2 agency would be allowed to place an individual into a wage-paying community service job if the agency determines that the individual is qualified for unsubsidized employment but has been unable to obtain full-time unsubsidized employment despite reasonable efforts on the part of the individual. This provision would take effect on the bill's general effective date.

The bill would limit the number of participants in wage-paying CSJs at any given time to 2,500 statewide, allocated among the W-2 agencies based on a formula determined by the Department. The W-2 agency could require a wage-paying CSJ participant to work in a

community service job for a maximum of 30 hours per week and to participate in job search activities for a maximum of 10 hours per week. A participant who refuses three times to participate in job search activities, without good cause, would be ineligible to participate in the wage-paying CSJ component.

A participant in a wage-paying community service job would receive the minimum wage for every hour actually worked in the community service job, not to exceed 30 hours per week. The Governor's proposal would specify that the income earned under a wage-paying CSJ would be excluded from the calculation of the state earned income tax credit.

As under current law, the agency would be allowed to contract with a nonprofit, nonstock corporation to provide employment for a wage-paying CSJ participant. The W-2 agency would be required to reimburse the employer for the amounts paid by the employer for the wages and payroll taxes of the participant. In addition, the W-2 agency would be required to provide the participant with worker's compensation coverage unless the employer for whom the participant is performing work provides worker's compensation.

Also, as under current law, a participant would be allowed to participate in a particular CSJ placement for up to three months, with the opportunity for a one-month extension under circumstances approved by the Department. An individual could participate in more than one CSJ, but generally could not exceed a total of 24 months of participation in all CSJ placements, unless approved by the Department on a case-by-case basis.

Except for the modification to the eligibility requirements, these provisions would take effect on January 1, 2001.

DISCUSSION POINTS

1. The wage-paying CSJ pilot program under current law has not yet been implemented due to changes needed in the CARES computer system. The Department expects that this pilot program will be implemented by October 1, 1999, through one agency in Milwaukee County (MAXIMUS).

2. Under the Governor's proposal, the wage-paying CSJ pilot program would be expanded statewide beginning January 1, 2001. However, the bill would limit the number of participants to 2,500, to be allocated among the W-2 agencies according to a formula determined by the Department. The Department has indicated that no agency would receive a specific number of wage-paying CSJ positions; rather, agencies would be allowed to place participants into the wage-paying CSJ employment position until all 2,500 slots statewide are filled.

3. The limitation to 2,500 cases statewide is approximately one-half of the number of potential trial job participants as estimated at the beginning of the W-2 program. This methodology was used because it was assumed that individuals eligible for the wage-paying CSJs would have similar characteristics as those eligible for trial jobs.

4. In February, 1999, there were 5,265 individuals placed in grant-paying community service jobs under the W-2 program. From April through November, 1998, CSJ cases declined on average 4.7% per month. If caseloads continued to decline at that same rate through the 1999-01 biennium, the CSJ caseload would fall to approximately 1,400 cases by the end of the biennium. More recent information suggests that CSJ caseloads may vary quite significantly on a monthly basis. From December, 1998, to January, 1999, the number of CSJ participants increased from 5,509 to 5,561, and then declined again to 5,265 from January to February, 1999. If caseloads remain fairly constant, or even decline slightly, over the next biennium, it is reasonable to assume that the number of participants in the grant-paying CSJ would average 5,000. The 2,500 limitation would be approximately one-half of the total CSJ caseload.

5. The Governor's proposal could result in increased costs if the benefits or wages paid to participants in the wage-paying CSJ are treated as taxable earnings and the employer and W-2 participant would have to pay federal and state payroll taxes. This issue also has implications for whether the participant would be eligible to receive the federal earned income tax credit, which could increase the participant's disposable income significantly.

6. The treatment of CSJ wages for federal tax purposes is determined by the Internal Revenue Service (IRS). In a recent ruling, the IRS provided an interpretation regarding the conditions under which payments funded with dollars under the TANF program are not considered income, earned income or wages for federal income and employment tax purposes. Under this ruling, it appeared that wages paid for participation in a CSJ would be considered TANF benefits and would, therefore, not be treated as earnings for federal tax purposes.

7. In order to clarify this issue, this office sent a letter to the IRS (dated March 17, 1999), along with the current and proposed statutes and other supporting materials regarding wage-paying CSJs, requesting an official determination. On May 14, we received a written response from the IRS stating that wages paid under the current CSJ pilot and the proposed statewide program would not be considered earned income under federal law. Therefore, such benefits would not be subject to federal and state income and payroll taxes, nor would individuals receiving the wage-paying CSJ benefit be allowed to count this income for purposes of the federal earned income tax credit. The IRS concluded that these types of payments will be treated as made for the promotion of the general welfare, rather than as taxable compensation.

8. Under current state law, participants who would be placed in the wage-paying CSJ pilot program would not be prohibited from obtaining the state EITC. The state EITC is calculated as a percentage of the federal EITC; therefore, because these participants would not be eligible to receive the federal credit, they would not receive the state credit. Under the Governor's proposal, participants in a wage-paying CSJ would be explicitly prohibited from receiving the state EITC.

9. Several legislators have expressed an interest in allowing participants in a wage-paying CSJ to receive the state EITC. Therefore, the Governor's proposal could be modified to specify that individuals participating in a wage-paying community service job would be eligible for the state EITC, even if though they are not eligible for the federal EITC. In addition to the cost of

providing the credit, as described below, this option would result in additional administrative costs for developing and processing a new tax form.

10. Because the provisions in the bill do not take effect until January 1, 2001, and the state EITC for calendar year 2001 would not be provided to the recipient until the Spring of 2002 when income tax forms must be filed, no costs for providing the state EITC would be incurred in the 1999-01 biennium.

11. However, costs would be incurred in the 2001-03 biennium. These costs depend directly upon caseload assumptions. If it is assumed that 2,500 participants would be placed into wage-paying CSJs, the cost of providing the state earned income tax credit would be approximately \$1,090,000 (\$163,500 GPR and \$926,500 FED) annually. The federal portion reflects an estimate of the costs that could be funded with federal TANF dollars. Because new federal regulations allow the state to use TANF funding for the refundable portion of the earned income tax credit, it is estimated that 80% of the cost of providing the state EITC could be funded with TANF dollars. This percentage also accounts for credits that may be provided to certain legal immigrants for whom TANF funds could not be used.

12. If CSJ wages were allowed for the state earned income tax credit, a family with one child could receive \$95 per year, a family with two children could receive \$392 per year, and a family with three or more children could receive \$1,204 per year (based on the credit for tax year 1999). These amounts are indexed for inflation.

13. In addition to the above modifications, the Committee could also consider eliminating the 2,500 case maximum included in the bill. The fiscal implications, again, depend upon caseload assumptions. If lifting the restriction on the number of cases results in more individuals being placed into the wage-paying CSJ, and if wage-paying CSJ participants were eligible for the state EITC, additional costs could result in the next biennium. However, it is possible that even if this restriction is eliminated, no more than 2,500 participants would be placed into a wage-paying CSJ in any given month.

14. Finally, it should be noted that the Governor's provision specifies two separate effective dates: the eligibility requirements would take effect on the bill's general effective date; and the remaining provisions would take effect on the January 1, 2001. The administration has indicated that all effective dates should be January 1, 2001.

ALTERNATIVES

1. Approve the Governor's recommendation to expand the wage-paying community service job program statewide beginning January 1, 2001. Specify that all provisions would become effective on that date.

2. Modify the Governor's recommendation by specifying that the income earned under a wage-paying CSJ would be included in the calculation of the state earned income tax credit,

regardless of whether this income may be counted for purposes of the federal credit.

3. **Modify the Governor's proposal to delete the limitation on the number of individuals statewide that could participate in a wage-paying community service job.**

4. **Maintain current law.** Under this option, the wage-paying community service job would be piloted in Milwaukee County.

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Joint Committee on Finance

Paper #1094

TANF

Inclusion of Child Support Income in Determining Eligibility for W-2 Employment Positions and Job Access Loans (DWD -- Economic Support and Child Care)

[LFB 1999-01 Budget Summary: Page 681, #6]

CURRENT LAW

Under current law, an individual may be eligible for a W-2 employment position or job access loan if the individual meets all nonfinancial and financial eligibility requirements. Under these requirements, the individual must assign to the state any right of the individual or of any dependent child to support or maintenance from any other person. Amounts assigned to the state remain assigned until the amount due the federal government has been recovered. Except for individuals in the child support demonstration project, any money received by the Department in a month under an assignment to the state must be passed through to the family.

In addition, in order to be eligible for a W-2 employment position or job access loan, the gross income of the W-2 group must be at or below 115% of the federal poverty level (\$15,962 for a family of three). In calculating gross income, the W-2 agency must include all earned and unearned income of the individual, including any child support payments received by the individual on behalf of a child who is a member of the W-2 group. Child support payments received by the Department under an assignment are not counted as income unless the Department has distributed the money to the individual.

GOVERNOR

Provide that child support payments received on behalf of children in the W-2 group that are distributed to the family would no longer be included as income for purposes of determining

eligibility for W-2 employment positions and job access loans. This provision would first apply to the calculation of the income of a person who applies for the W-2 program on January 1, 2000.

DISCUSSION POINTS

1. Under federal law related to the temporary assistance to needy families (TANF) program, the state is required to meet a maintenance of effort (MOE) requirement. Under this provision, it is estimated that the state must spend \$168.8 million annually on qualified expenditures in order to avoid penalties and reductions in the federal TANF block grant. The state's basic TANF grant will be reduced by the amount, if any, by which qualified state expenditures in the previous year are less than the MOE requirement. If the TANF grant is reduced in a fiscal year under this provision, the state must expend additional state revenues in the following year equal to the amount of the reduction. In addition, if a state receives a welfare-to-work (WtW) formula grant and fails to meet the TANF maintenance of effort, the amount of the TANF block grant will be reduced in the following year by an amount equal to the WtW grant (approximately \$12.9 million in Wisconsin).

2. Federal regulations regarding the TANF program specify that the state's share of the assigned child support that is distributed to a family and disregarded in determining eligibility for benefits and the amount of the family's grant may count toward the MOE requirement. As noted, current state law requires child support payments to be passed through to recipients (except those in the child support demonstration project). Child support payments that are passed through do not determine the amount of the family's W-2 grant, but the payments are included when determining eligibility for the W-2 program. Therefore, under current law, current child support payments passed through to the family could not be counted toward the MOE requirement.

3. The administration has estimated that, under the Governor's recommendation to disregard child support payments in determining eligibility for the W-2 program, \$2,267,600 in 1999-00 and \$6,238,400 in 2000-01 in current child support payments could be counted toward the MOE requirement. These amounts have been included in the administration's estimates of available funding for the MOE requirement. However, based on more recent information regarding child support payments, it is estimated that \$2,964,100 in 1999-00 and \$8,436,300 in 2000-01 could be counted toward the maintenance of effort. The lower number in the first year reflects the January 1, 2000, effective date for the Governor's proposal.

4. If the Committee does not approve the Governor's recommendation to disregard child support payments when determining income for the W-2 and job access loan programs, additional funding would have to be provided for the MOE requirement or the state could incur financial penalties. No other programs for which state dollars are already being spent that could count toward the MOE requirement have been identified. Therefore, additional GPR (approximately \$3.0 million in 1999-00 and \$8.4 million in 2000-01) would have to be appropriated to DWD in order to avoid penalties. Under the penalties, at a minimum the state would incur a reduction in the TANF grant of \$15.9 million in 2000-01 (which amounts to approximately 5% of the grant

amount), and the state would have to spend an additional \$18.9 million in state dollars in 2001-02. Penalties would be higher in subsequent years.

5. The administration has indicated that, due to changes needed in the CARES computer system, the estimated starting date for this provision is March 1, 2000, rather than the January 1 effective date included in the bill. Under this new starting date, the amount that could be counted toward the MOE requirement in 1999-00 would be lower by an additional \$1,482,100. If the Governor's recommendation is approved with this modified starting date, additional GPR would have to be appropriated in order to avoid financial penalties under the MOE requirement.

6. Under the Governor's proposal, it is likely that some individuals who would not previously have been eligible for the W-2 program, would become eligible. Costs would be incurred if those individuals were then placed into a subsidized employment position. The administration indicates that the cost of this provision would be absorbed within the W-2 agency contract allocations. Based on data regarding child support received by recipients of child care assistance, it appears that this option would result in a very small cost increase, as assumed by the administration.

7. The Governor's provision would ease eligibility determinations because the financial employment planner in the W-2 agency would not have to estimate a person's child support income prospectively, which may be difficult given that payments are often inconsistent.

8. One reason for passing through child support collected on behalf of W-2 participants is that non-custodial parents may be reluctant to pay support when it appears the support payment is going to the state and not to the family. This may also lead to reduced cooperation by the custodial parent in obtaining support. If the child support is disregarded in determining eligibility for the W-2 program, the custodial parent might be more inclined to cooperate with obtaining support and the non-custodial parent might be more inclined to pay support when the support is used to enhance a benefit under the W-2 program.

9. However, removing child support from the definition of countable income could create inequities between families who have the same amount of income, but from different sources. For example, a family whose income is made up entirely of wages would not be eligible for a W-2 subsidized employment position or job access loan if their income exceeds 115% of the poverty level. However, a family with the same amount of total income could be eligible if a portion of that income consists of child support payments.

ALTERNATIVES

1. Approve the Governor's recommendation to specify that child support payments received on behalf of children in the W-2 group that are distributed to the parent in the W-2 group would no longer be included as income for purposes of determining eligibility for W-2 employment positions and job access loans. Any increase in benefit costs would be paid from the W-2 agency contract allocations. Under this option, DWD would be required to implement this provision

effective January 1, 2000.

2. Provide \$1,482,100 GPR in 1999-00 and modify the effective date under the Governor's proposal from January 1, 2000, to March 1, 2000.

Alternative 2	GPR
1999-01 FUNDING (Change to Bill)	\$1,482,100

3. Delete the Governor's recommendation and provide \$2,964,100 GPR in 1999-00 and \$8,436,300 GPR in 2000-01 to replace funding that would otherwise have been counted toward the maintenance of effort requirement.

Alternative 3	GPR
1999-01 FUNDING (Change to Bill)	\$11,400,400

Prepared by: Joanne T. Simpson

Gov Agency: DWD—Economic Support and Child Care—Residency Requirement Under W-2

Recommendations:

Paper No. 1095 Alternative 2

Comments: Current law requires an individual must have resided in Wisconsin for at least 60 consecutive days prior to applying for assistance for a subsidized employment position or a job access loan. California has a similar two-tiered system of benefits provided under its TANF program, and the Supreme Court recently ruled that it violated the Fourteenth Amendment. As such, Wisconsin law should probably be changed to prevent any potential lawsuits. Alt. 2 waives the residency requirement and instead specifies that an individual must be a resident of Wisconsin.

Prepared by: Julie