



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #846

Temporary Assistance for Needy Families (TANF)

W-2 Agency Contracts – Services and Administration (DWD – Economic Support and Child Care)

[LFB 2003-05 Budget Summary: Page 489, #2]

CURRENT LAW

The Department of Workforce Development (DWD) is authorized to contract with any person to implement the Wisconsin Works (W-2) program. There are currently 66 W-2 agencies, including: (a) 53 county human/social services agencies (there is one county consortium that includes five counties); (b) nine non-county agencies outside Milwaukee County that serve 14 counties; and (c) four non-county agencies that serve six regions in Milwaukee County. There are three for-profit agencies: Maximus in Milwaukee County; Affiliated Computer Services (ACS) in Waukesha County; and the Kaiser Group in Walworth County. All other non-county agencies are non-profit organizations. As of May 1, 2003, six tribes operate separate programs as allowed under federal law. (The Oneida tribe began operating its own program on May 1, 2003).

The current W-2 agency contracts run from January 1, 2002, through December 31, 2003, and include funding for W-2 employment benefits, program services, and administration. Program services funds are used to provide services such as case management, job training, job readiness, motivation, education, and social services. Funds for administration are generally limited to 15% (20% for certain small W-2 agencies) of the contract amounts and are used for costs related to operating the W-2 program, but not directly related to services delivery, such as rent, salaries and fringe benefits for program managers, and other administrative overhead.

Under 2001 Act 16 (the 2001-03 biennial budget), the current W-2 contracts for administration and services total \$198.4 million, or \$99.2 million per year, for the two-year contract period. Act 16 provided funding for the first 18 months of the current contracts, with

the assumption that the remaining six months would be budgeted in 2003-04. It should be noted that DWD, in its final allocation of the 2002-2003 contract funding, shifted \$870,400 from W-2 administration and services to W-2 benefits. Therefore, under the current contracts, funding for W-2 administration and services totals \$197.6 million compared to the statutory allocation of \$198.4 million under Act 16.

There is no separate allocation for administration and services for the W-2 program under current law. However, the bill assumes a base level of funding for services of \$76,941,900 and for administration of \$22,279,700 (15% of the total contract amount).

GOVERNOR

Reduce funding by \$21,335,300 annually for services and administration under the W-2 agency contracts and make the following modifications:

W-2 Services. Create a separate statutory allocation for W-2 ancillary services of \$55,606,600 in each year. For 2003-04, the funding would include \$27,803,300 for the last six months of the current contracts, and \$27,803,300 for the first six months of the next contracts, which will cover calendar years 2004 and 2005. All of the funding for 2004-05 would be used for the next 12 months of the 2004-2005 contracts. Funding for the final six months of those contracts would be provided in the 2005-07 biennial budget.

W-2 Administration. Create a separate statutory allocation for W-2 agency administration of \$22,279,700 in each year. For 2003-04, this would include \$11,139,800 for the last six months of the 2002-2003 contracts, and \$11,139,900 for the first six months of the 2004-2005 contracts. All of the funding for 2004-05 would be used for the next 12 months of the 2004-2005 contracts. As with funding for ancillary services, funding for W-2 administrative expenses for the last six months of the contracts would be provided in the 2005-07 biennial budget.

DISCUSSION POINTS

1. The current W-2 agency contracts include services and administration funding of \$48,740,400 for the last six months of the contract term (July through December, 2003). However, the bill would reduce the amount of services and administration funding for the remainder of these contracts to \$38,943,100 (\$27,803,300 for services and \$11,139,800 for administration), a decrease of \$9,797,300 (20%) from the contract amount.

W-2 Agency Services

2. Under the bill, the entire \$21,335,300 annual reduction would be taken from the services allocation, and the administrative funding allocation would be maintained at the current level. As a result, services funding for the 2004-2005 contracts would be reduced from \$76.9 million per year to \$55.6 million, a decrease of approximately 28%.

3. During the current contract period, statewide spending for W-2 services is running slightly over the allocation amounts. Based on expenditures through February, 2003, it is projected that services expenditures over the entire contract period would exceed the allocation amounts by \$1.8 million if the current level of spending is maintained. With the \$9.8 million funding reduction under the bill, W-2 agencies would have to reduce services expenditures by \$11.6 million compared to the current spending levels, or reallocate other funds available to the agencies (excluding funds for W-2 cash benefits) for W-2 services over the remainder of the contract period.

4. DWD indicates that it is hoping to limit the impact of the reduction in services funding under the bill by promoting consortia to provide W-2 services for larger areas to take advantage of economies of scale in education and training services. Further, DWD is hoping that the transitional subsidized private sector jobs proposal under the bill would reduce W-2 agency services costs, because employers would provide on-the-job and "soft-skills" training. According to DWD, ideas such as these are being considered for the 2004-2005 contracts and in the implementation of the subsidized transitional jobs proposal.

5. While promoting consortia and economies of scale could help to eliminate redundant services among W-2 agencies and reduce costs, these modifications would not be implemented until the new contracts begin on January 1, 2004. Further, any reduction in costs relating to the proposed subsidized transitional jobs program also would not be realized until the program begins on January 1, 2004. Therefore, none of these measures would reduce the impact of the reduction in services spending for the last six months of the 2002-2003 contracts.

6. W-2 agencies, in administering the W-2 programs in their areas, have budgeted a certain amount of funds to provide services based on the W-2 contract allocations. Many agencies enter into subcontracts with other providers to deliver education and training services to their clients. Therefore, the bill, in reducing the amount available under those contracts by 28% for the last six months of the contract period, could interrupt services to participants and existing contracts.

7. To lessen the impact on W-2 services for the last six months of the current contracts, the Committee could provide \$5.0 million in 2003-04 to partially restore funding allocated for W-2 services. This would represent about one-half of the reduction under the bill. However, as noted in the initial TANF reestimate paper, there is an estimated deficit in TANF funds over the biennium. Therefore, restoring funding for W-2 agency services would require funding reductions or programmatic changes to reduce overall costs in other TANF-related programs.

8. Alternatively, the Committee could reduce funding allocated for W-2 agency administration under the bill by 5%, and provide \$2,228,000 in 2003-04 to restore a portion of funds for W-2 agency services for the last six months of the current contracts. The 5% administrative cut is discussed below.

W-2 Agency Administration

9. Under current law, there is no base allocation for W-2 agency administration. However, SB 44 assumes a base level of \$22,279,700 for administration. Under the bill, funding

for W-2 agency administration would be maintained at \$22,279,700 in each year.

10. Under federal regulations, there is an overall 15% cap on administrative expenditures. Under the bill, funds allocated for W-2 agency administration would represent 14.9% of the total amount of funding allocated for W-2 benefits, services, and administration in 2003-04 and 14.3% in 2004-05.

11. Funding for administration for most state programs would be reduced under the bill in order to maximize the amount of funds available for benefits and services, and to bring the overall state budget into balance.

12. However, under the bill, funding for W-2 agency administration would be maintained while funding for W-2 services to participants would be reduced by 28%. Therefore, it could be argued that W-2 agency administration would be maintained under the bill at the cost of providing services to W-2 participants. Further, a number of other TANF-related programs would be reduced or eliminated under the bill.

13. The Committee could reduce funding for W-2 administration under the bill by 5% per year. This would generate savings of \$1,114,000 in each year, for total savings of \$2,228,000 over the biennium. The savings could be used to: (a) offset the costs of W-2 agency services to participants if the Committee restores funding for W-2 agency services for the remaining six months for the contracts; (b) restore funding for other TANF-related programs; or (c) address the projected 2003-05 TANF deficit.

ALTERNATIVES

A. W-2 Services

1. Adopt the Governor's proposal to reduce funding allocated for W-2 agency services by \$21,335,300 annually, and to create a separate statutory allocation for W-2 services. The amount allocated for W-2 services would total \$55,606,600 in each year, including: (a) \$27,803,300 in 2003-04 for the last six months of the 2002-2003 W-2 agency contracts; (b) \$27,803,300 in 2003-04 for the first six months of the 2004-2005 W-2 agency contracts; and (c) \$55,606,600 in 2004-05 for the next 12 months of the 2004-2005 W-2 agency contracts. The final six months of the 2004-2005 W-2 agency contracts would be funded in the 2005-07 biennium.

2. Modify the Governor's proposal to restore funding for W-2 agency services by \$5,000,000 FED in 2003-04, and increase the statutory allocation for W-2 services funding for the last six months of the 2002-2003 contracts by the same amount for a total allocation of \$32,803,300. Under this alternative, compared to current law, funding for W-2 agency services would be reduced by \$5,667,700 in 2003-04 for the last six months of the current contracts.

<u>Alternative A2</u>	<u>FED</u>
2003-05 FUNDING (Change to Bill)	\$5,000,000

3. Modify the Governor's proposal to restore funding for W-2 agencies services by \$2,228,000 FED in 2003-04, and increase the statutory allocation for W-2 services funding for the last six months of the 2002-2003 contracts by the same amount for a total allocation of \$30,031,300. Under this alternative, compared to current law, funding for W-2 agency services would be reduced by \$8,439,700 in 2003-04 for the last six months of the current contracts.

<u>Alternative A3</u>	<u>FED</u>
2003-05 FUNDING (Change to Bill)	\$2,228,000

B. W-2 Administration

1. Adopt the Governor's proposal to maintain funding allocated for W-2 agency administration at \$22,279,700 annually, and to create a separate statutory allocation for W-2 administration. The amount allocated for W-2 administration would total: (a) \$11,139,800 in 2003-04 for the last six months of the 2002-2003 W-2 agency contracts; (b) \$11,139,900 in 2003-04 for the first six months of the 2004-2005 W-2 agency contracts; and (c) \$22,279,700 in 2004-05 for the next 12 months of the 2004-2005 W-2 agency contracts. The final six months of the 2004-2005 W- 2 agency contracts would be funded in the 2005-07 biennium.

2. Modify the Governor's proposal to reduce funding by \$1,114,000 FED in each year and reduce the allocations for W-2 agency administration by the same amount. The amounts allocated for W-2 administration would total: (a) \$10,582,800 in 2003-04 for the last six months of the 2002-2003 W-2 agency contracts; (b) \$10,582,900 in 2003-04 for the first six months of the 2004-2005 W-2 agency contracts; and (c) \$21,165,700 in 2004-05 for the next 12 months of the 2004-2005 W-2 agency contracts.

<u>Alternative B2</u>	<u>FED</u>
2003-05 FUNDING (Change to Bill)	- \$2,228,000

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