



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #887

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

Bill Agency

[LFB 2007-09 Budget Summary: Page 608, #3 and Page 609, #4]

CURRENT LAW

The Department of Workforce Development (DWD) is authorized to contract with any person to implement the Wisconsin Works (W-2) program at the local level. As of May 1, 2007, W-2 is administered at the local level as follows: (a) 45 counties are served by county human/social services agencies; (b) 26 counties outside of Milwaukee County are served by non-county agencies; and (c) four non-county agencies cover five regions in Milwaukee County. There are four for-profit W-2 agencies: Maximus in Milwaukee County, Arbor Education and Training in Waukesha County, the Kaiser Group in Walworth County, and Policy Studies, Inc. in Milwaukee County. All other non-county agencies are non-profit organizations. Eight tribes operate separate state programs as allowed under federal law.

The current W-2 agency contracts run from January 1, 2006, through December 31, 2009, and include funding for W-2 employment benefits, program services, and administration. W-2 employment benefit funding is used for monthly grants and employer subsidies paid under subsidized W-2 employment positions and caretaker of newborn infant (CNI) grants. 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 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.

The contract allocations under 2005 Act 25 (the 2005-07 biennial budget act) for the first 18 months of the current (2006-2009) W-2 agency contracts included \$77.9 million in employment benefits, \$65.2 million in services funds, and \$25.3 million for administration. The next 24 months of these four-year contracts will be funded in the 2007-09 biennial budget.

GOVERNOR

Based on the Governor's estimate of a monthly cash benefit caseload of 6,500 (including the CNI caseload, the real work real pay pilot project caseload, and the pregnant women caseload, which will be addressed in separate budget papers) during the period from July 1, 2007, through June 30, 2009, of the 2006-2009 W-2 agency contracts, modify benefits, services, and administration funding for the W-2 agency contracts as follows:

W-2 Benefits. Reduce funding for W-2 subsidized employment benefits and CNI grants by \$7,368,800 FED in 2007-08 and \$8,803,400 FED in 2008-09. Funding would total \$45,073,100 in 2007-08 and \$43,638,500 in 2008-09. These amounts do not include any increase that may result from extending CNI grants from 12 weeks to 26 weeks or from extending grants to pregnant women who are in their third trimester of an at-risk pregnancy. Base funding for cash benefits is \$52,441,900. [Provisions relating to the proposed extension of CNI grants and grants to pregnant women are discussed in separate budget papers.]

The 2007-08 and 2008-09 statutory allocations for W-2 benefits under the bill, including grants to pregnant women and CNI grants, would total \$48,276,900 in 2007-08 and \$51,003,200 in 2008-09 for the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009). Funding for the final six months of the 2006-2009 contracts would be included in the 2009-11 biennial budget.

W-2 Services. Reduce funding for services for W-2 participants by \$8,112,600 FED annually. Funding would total \$38,471,500 annually. These amounts reflect the transfer of the FoodShare employment and training (FSET) program to the Department of Health and Family Services and do not include any increase that may result from implementing a real work, real pay pilot project. Base funding for services is \$46,584,100. [Provisions related to the transfer of the FSET program and the real work, real pay pilot project are discussed in separate budget papers.]

The 2007-08 and 2008-09 statutory allocations for W-2 services under the bill, including services for the real work, real pay pilot project, would total \$38,604,400 in 2007-08 and \$40,066,300 in 2008-09 for the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009). Funding for the final six months of the 2006-2009 contracts would be included in the 2009-11 biennial budget.

W-2 Administration. Maintain base funding of \$13,201,100 annually for administration of the 2006-2009 W-2 agency contracts.

The 2007-08 and 2008-09 statutory allocations for W-2 administration under the bill would total \$13,201,100 annually for the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009). Funding for the final six months of the 2006-2009 contracts would be included in the 2009-11 biennial budget.

SB 40 would provide a total of \$192,056,800 for the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009). This amount does not include any

increase that may result from extending CNI grants from 12 weeks to 26 weeks, from extending grants to pregnant women who are in their third trimester of an at-risk pregnancy, or from implementing a real work, real pay pilot project.

DISCUSSION POINTS

Benefits

1. SB 40 would allocate \$45,073,100 in 2007-08 and \$43,638,500 in 2008-09 for W-2 cash benefits for the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009). This would be provided as follows: (a) \$9,126,000 annually would be for cash grants paid to caretakers of newborn infants under current law; and (b) \$35,947,100 in 2007-08 and \$34,512,500 in 2008-09 would be provided for W-2 cash benefits for persons in paid W-2 employment positions.

2. Additional funding is provided to extend cash grants paid to caretakers of newborn infants from 12 weeks to 26 weeks and to extend grants to pregnant women who are in their third trimester of an at-risk pregnancy. (These funding amounts are addressed in separate budget papers.) The following table shows funding provided under SB 40 for benefits under the 2006-2009 W-2 agency contracts, the extension of CNI grants, and the extension of grants to pregnant women who are in their third trimester of an at-risk pregnancy.

2006-2009 W-2 Agency Contracts Benefits Funding Under SB 40

<u>Proposal</u>	<u>Base Funding</u>	<u>2007-08</u>	<u>2008-09</u>
W-2 Benefits	\$52,441,900	\$45,073,100	\$43,638,500
Extend CNI Grants	0	2,734,600	6,426,200
Extend Grants to Pregnant Women	0	469,200	938,500
Total	\$52,441,900	\$48,276,900	\$51,003,200

3. The W-2 cash benefit caseload has been declining. The administration attributes the declining caseload to quicker up-front attachment to the workforce and to an improved economy. SB 40 assumes the subsidized W-2 employment caseload will be 5,200 per month from July, 2007, through December, 2007, 5,041 from January, 2008, through June, 2008, and 4,916 from July, 2008, through June, 2009. The estimated caseload in 2008-09 would be 19.3% less than the caseload of 6,093 in January, 2006, but is actually greater than the caseload of 4,746 in March, 2007, by 3.6%. The bill also assumes an average monthly CNI caseload of 1,300, a decrease of 3.8% from the monthly average of 1,350 cases for January, 2006, through March, 2007.

4. Under current law, caretakers of newborn infants less than 12 weeks old are eligible for a monthly grant of \$673. Persons in a community service job (CSJ) are also eligible to receive a monthly grant of \$673. Employers of persons in a trial job are eligible to receive reimbursement of up to \$300 per month to offset the cost of the person's wages. Persons in a transitional placement

are eligible to receive a monthly grant of \$628. These amounts are maximum amounts; the actual benefits paid are generally less than the maximum, because persons participate on a part-time basis, or may be sanctioned for not fulfilling participation requirements.

5. Under SB 40, the assumed monthly average cash benefit for persons in W-2 paid employment positions is \$585. The actual average benefit level has been slightly higher in recent months, with an average amount for W-2 paid employment positions (excluding CNI grants) for the period July, 2006, through March, 2007, of \$587.80 per month.

6. Based on the current average level of \$587.80 per month, the amount of funding provided under the bill for W-2 cash benefits would fund 4,995 paid W-2 employment cases per month over the contract period. This would actually be an increase of 5.2% to the caseload of 4,746 in March, 2007. Therefore, the funding provided for the next 24 months of the 2006-2009 W-2 agency contracts could be sufficient to fund the W-2 benefit caseloads (Alternative A1).

7. With current caseload trends, it is possible that the subsidized W-2 employment caseload over the next 24 months of the 2006-2009 contracts could level off. The average monthly caseload from July, 2006, through March, 2007 was 5,153--similar to the caseload of 5,200 estimated under SB 40 for July, 2007, through December, 2007. If the current average monthly benefit level of \$587.80 were applied to the average caseload of 5,153, and with a CNI caseload of 1,350, benefits would total \$45,300,000 FED annually. The Committee could increase funding by \$226,900 FED in 2007-08 and \$1,661,500 FED in 2008-09 fully fund W-2 benefits with an average monthly caseload of 5,153, an average monthly benefit level of \$587.80, and an average monthly CNI caseload of 1,350 (Alternative A2).

8. Caseloads for subsidized W-2 employment positions over the 2005-07 biennium have declined nearly every month. If the economy continues to improve, it is possible that there would be an additional decrease in the monthly caseloads. The average monthly caseload for subsidized W-2 employment positions from January through March, 2007, was 4,836. The average monthly benefit amount during the same time period was \$586.30. The Committee could reduce funding for W-2 benefits by \$2,093,100 FED in 2007-08 and \$658,500 FED in 2008-09 to reflect W-2 benefits for an average monthly caseload of 4,836, an average monthly benefit of \$586.30 and an average CNI caseload of 1,350 (Alternative A3). Under this option, the total allocation for benefits would be \$42,980,000 in each year.

9. In addition, the caseloads have been decreasing at a rate of 1.77% per month. If the caseloads continue to decrease at that rate, the average caseload could fall to 4,013 in 2007-08 and 3,239 in 2008-09. The Committee could reduce funding for W-2 benefits by \$7,773,100 FED in 2007-08 and \$11,838,500 FED in 2008-09 to reflect a decrease in monthly caseloads by 1.77% per month (Alternative A4). Under this alternative, the total allocation for benefits would be \$37,300,000 in 2007-08 and \$31,800,000 in 2008-09.

10. However, it may be unrealistic to expect the caseload to continue to decline by 1.77% per month for several reasons. First, there is a core caseload of W-2 participants for whom employment is difficult to achieve. There may be a point at which the caseload can no longer

decrease at the rate of 1.77% per month. Second, national economic growth slowed significantly during the first quarter of 2007. This may be an indication that the economy will not continue to improve. Finally, the national unemployment rate is expected to increase during 2007 and the beginning of 2008, which could increase the W-2 caseloads.

11. Attachment 1 summarizes the caseload and expenditure data mentioned above.

Services

12. SB 40 would allocate \$38,471,500 annually for services for the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009). This is a decrease in funding of \$8,112,600 FED annually, which reflects the transfer of FSET program from DWD to DHFS. Additional funding would also be provided to extend services under the real work, real pay demonstration project (addressed in a separate budget paper).

13. Based on actual expenditures from January, 2006, through February, 2007, it is projected that expenditures for services over the next 24 months of the 2006-2009 W-2 agency contracts would total \$81,300,000 (excluding funding for the FSET program), for a total of \$3,387,500 per month if the current level of spending is maintained. The Committee could fund services for the next 24 months of the 2006-2009 W-2 agency contracts based on actual expenditures for services from January, 2006, through February, 2007 and increase funding by \$2,178,500 FED annually to reflect average expenditures for services during the first 14 months of the 2006-2009 W-2 agency contracts (Alternative B2).

14. On the other hand, it is possible that the overall caseload for W-2 will decrease. As a result, the need for services would decrease. Therefore, the funding of services provided in the bill for the next 24 months of the 2006-2009 W-2 agency contracts may be sufficient (Alternative B1).

15. However, the funding provided for services also supports individuals in the W-2 program who are not in paid W-2 employment positions. These funds are used to provide case management services to help an individual retain employment and to obtain additional skills for a job with more hours, pay, and benefits. From January, 2006, through March, 2007, the non-paid caseload has increased by 77.1%. Therefore, it may be desirable to increase funding for services.

Administration

16. SB 40 would allocate \$13,201,100 annually for local administration of W-2 for the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009). Based on actual expenditures from January, 2006, through February, 2007, it is projected that administration expenditures for the next 24 months of the contracts would total approximately \$19,200,000 FED (\$800,000 per month) if the current level of spending is maintained. The Committee could reduce funding by \$3,601,100 FED annually to reflect average expenditures for services during the first 14 months of the 2006-2009 contracts (Alternative C2).

17. On the other hand, actual expenditures for local administration of W-2 in 2005-06 were \$15,716,700. More recent expenditures suggest spending for local administration far below this amount, for a decrease of 38.8%. The amount allocated for local administration under SB 40 represents a decrease of 16% from actual expenditures in 2005-06. The 16% decrease provided under SB 40 may be more appropriate (Alternative C1).

ALTERNATIVES TO BILL

A. Benefits

1. Approve the Governor's recommendation to provide \$45,073,100 in 2007-08 and \$43,638,500 in 2008-09 for the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009). These amounts are lower than the base funding level by \$7,368,800 in 2007-08 and \$8,803,400 in 2008-09.

ALT A1	Change to Bill Funding	Change to Base Funding
FED	\$0	- \$16,172,200

2. Modify the Governor's recommendation to provide an additional \$226,900 FED in 2007-08 and \$1,661,500 FED in 2008-09 to fully fund W-2 benefits for the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009) with an average monthly caseload of 5,153, an average monthly benefit level of \$587.80, and an average monthly CNI caseload of 1,350. The statutory allocation for W-2 benefits would total \$45,300,000 annually.

ALT A2	Change to Bill Funding	Change to Base Funding
FED	\$1,888,400	- \$14,283,800

3. Modify the Governor's recommendation to reduce funding by \$2,093,100 FED in 2007-08 and \$658,500 FED in 2008-09 to fund W-2 benefits for the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009) with an average monthly caseload of 4,836, an average monthly benefit of \$586.30 and an average CNI caseload of 1,350. The statutory allocation for W-2 benefits would total \$42,980,000 annually.

ALT A3	Change to Bill Funding	Change to Base Funding
FED	- \$2,751,600	- \$18,923,800

4. Modify the Governor's recommendation to reduce funding by \$7,773,100 FED in 2007-08 and \$11,838,500 FED in 2008-09 to fund W-2 benefits for the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009) to reflect a decrease in monthly caseloads by 1.77% per month. The total statutory allocation for W-2 benefits would be

\$37,300,000 in 2007-08 and \$31,800,000 in 2008-09.

ALT A4	Change to Bill Funding	Change to Base Funding
FED	-\$19,611,600	-\$35,783,800

B. Services

1. Approve the Governor's recommendation to provide \$38,471,500 annually for services during the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009). These amounts are lower than the base funding level by \$8,112,600 annually.

ALT B1	Change to Bill Funding	Change to Base Funding
FED	\$0	-\$16,225,200

2. Modify the Governor's recommendation to provide an additional \$2,178,500 FED annually for the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009) to reflect average expenditures for services during the first 14 months of the 2006-2009 W-2 agency contracts. The total statutory allocation would be \$40,650,000 annually.

ALT B2	Change to Bill Funding	Change to Base Funding
FED	\$4,357,000	-\$11,868,200

C. Administration

1. Approve the Governor's recommendation to continue to provide base level funding of \$13,201,100 annually for local W-2 administrative expenses during the next 24 months of the 2006-2009 W-2 agency contracts (from July 1, 2007, through June 30, 2009).

2. Modify the Governor's recommendation to reduce funding by \$3,601,100 FED annually to reflect average expenditures for services during the first 14 months of the 2006-2009 W-2 agency contracts. The total statutory allocation would be \$9,600,000 annually.

ALT C2	Change to Bill Funding	Change to Base Funding
FED	-\$7,202,200	-\$7,202,200

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Attachment

