



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #213

### **Work Program Wage Subsidies (Children and Families -- Economic Support and Child Care)**

[LFB 2015-17 Budget Summary: Page 104, #6]

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#### **CURRENT LAW**

Current law requires the Department of Children and Families (DCF) to implement three programs in which businesses that employ eligible low-income individuals are paid wage subsidies and other costs attributable to the employment of an individual (such as social security, Medicare, and unemployment taxes). These programs are the trial employment match program (TEMP), Transform Milwaukee, and the Transitional Jobs program.

The TEMP program is one of the placement options under the Wisconsin Works (W-2) program, which primarily serves low-income custodial parents. Transform Milwaukee serves individuals with who reside in certain areas of Milwaukee. In contrast to W-2, the Transform Milwaukee program is available to childless individuals, and the income limit is higher. The Transitional Jobs program is similar to Transform Milwaukee, but may be implemented in other areas of the state.

As of February, 2015, there were 725 participants in Transform Milwaukee. As of this writing, DCF has not begun implementation of the TEMP placement option or the Transitional Jobs program.

The statutes regarding each of these programs require the employer to pay the participant at least minimum wage for each hour worked. For TEMP, the employer must be paid a wage subsidy in an amount negotiated with the local W-2 agency, but the hourly subsidy may not be less than the applicable minimum wage. Current law does not allow for negotiation of the wage subsidy in the Transform Milwaukee and Transitional Jobs programs. Instead, DCF pays the employer an amount equal to the wages paid to the individual for hours actually worked, not to

exceed 40 hours per week at minimum wage.

## **GOVERNOR**

The bill would change the TEMP wage subsidy amount paid to employers from being not less than minimum wage to being no more than minimum wage.

The bill would change the Transform Milwaukee the Transitional Jobs programs such that the subsidy amount would be negotiated between DCF and the employer. Instead of requiring the subsidy to be equal to the minimum wage, the subsidy could not exceed the minimum wage.

## **DISCUSSION POINTS**

1. According to the administration, allowing agencies to negotiate subsidies less than minimum wage would reduce the waste associated with providing subsidies which are higher than required in order to induce an employer to engage a participant.

2. The administration contends that the subsidy amounts used in TEMP, Transform Milwaukee, and Transitional Jobs should reflect the participant's skills and experience. According to the administration, higher skilled participants with fewer barriers to employment should not require as high a subsidy as low skilled participants in order for an employer to be willing to employ them on a trial basis.

3. The administration also contends that the subsidy amounts used in TEMP, Transform Milwaukee, and Transitional Jobs should reflect the labor market. In times of low unemployment and in geographic areas where the labor market is tight, employers may not need as large an incentive to hire a participant as they do when there are large numbers of highly qualified individuals competing for a small number of vacancies (such as the conditions experienced during a recession).

4. The administration also states that the bill would continue to provide sufficient flexibility for negotiating higher subsidies when participants are further from meeting employer requirements.

5. However, there are potentially several drawbacks to placing a statutory minimum wage ceiling on wage subsidies for the TEMP, Transform Milwaukee, and Transitional Jobs programs.

6. First, a statutory ceiling would restrict the ability to provide higher subsidies during times of recessions when higher subsidies may be needed to induce employers to engage applicants with barriers to employment (such as lacking previous work experience, offenders reentering the labor force, or those lacking basic and employability skills).

7. Second, a minimum wage ceiling may exclude certain employers and categories of employment positions from participating in the program due to the low amount of the subsidy available. Without the availability of higher subsidy amounts, the TEMP, Transform Milwaukee,

and Transitional Jobs programs could effectively be limited to minimum wage employment positions.

8. Third, recent history with similar programs suggests that placing a minimum wage ceiling upon the subsidy amount may undermine efforts to attract employers to participate in the TEMP, Transform Milwaukee, and Transitional Jobs programs. The state has administered other subsidized employment programs in the past that have struggled to attract sufficient participation by employers. For example, the trial jobs program, which was similar to TEMP and utilized a \$300 monthly subsidy cap, averaged only 13 placements a month in 2012 and five placements a month in 2013.

9. Fourth, due to inflation, the value of the statutory ceiling will continue to fall over time unless the minimum wage is raised. This may further restrict the ability of the programs to find employers willing to hire participants.

10. Finally, due to geographical differences in the labor market across the state, the minimum wage ceiling could restrict the ability of the programs to expand. Different areas of the state experience higher costs and weaker labor markets than others. As a result, the minimum wage ceiling may have a different impact in those areas and negatively impact the functioning of the programs.

11. The Committee may wish to modify the bill to remove the statutory minimum wage ceiling on the subsidies for the TEMP, Transform Milwaukee, and Transitional Jobs programs. This would allow DCF and W-2 agencies the discretion to negotiate subsidies in any amount needed.

## **ALTERNATIVES**

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation to eliminate the reference to the minimum wage and instead grant W-2 agencies (in the case of TEMP) and DCF (in the case of the Transform Milwaukee and Transitional Jobs programs) discretion to negotiate the amount of the wage subsidy.
3. Delete provision.

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