Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: http://legis.wisconsin.gov/lfb

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Wisconsin Shares Child Care Subsidy Program (Children and Families -- TANF and Economic Support)

[LFB 2023-25 Budget Summary: Page 93, #2 and #3; and Page 94, #4]

CURRENT LAW

The Wisconsin Shares program, administrated by the Department of Children and Families (DCF), provides child care assistance for low-income families to enable parents and other caretakers to work or to prepare for employment through work programs and education or training. Under the program, the state subsidizes the cost of child care charged by providers chosen by the parent.

Wisconsin Shares is funded using the federal temporary assistance for needy families (TANF) block grant and the federal child care development fund (CCDF), which consists of funding from the federal child care development block grant (CCDBG) and Title IV-A of the Social Security Act.

Initial eligibility for Wisconsin Shares is limited to families with gross income of no more than 185% of the federal poverty level (FPL), which is $45,991 for a family of three in 2023. The copayments of participating families whose incomes increase above the 200% FPL threshold ($49,720 for a family of three) increase by $1.00 for every $3.00 by which the family's gross income exceeds 200% of the FPL. These families retain eligibility until either the copayment reduces the subsidy to $0 or their income increases to the exit threshold of 85% of state median income. Once a case has been closed for more than a calendar month, the family must reapply using the 185% FPL standard.

In general, the definition used to determine income includes all earned and unearned income of the individual, except: (a) assistance received for participation in Wisconsin Works; (b) federal and state earned income tax credits and any federal income tax refund; (c) certain types of loans, in-kind income, and vendor payments; (d) income earned by a dependent child; (e) child support payments, if less than $1,250 per month; and (f) federal or state student financial aid or any scholarship used for tuition and books. However, under administrative rules, any income from sources that must be disregarded by federal or state law for purposes of determining eligibility for means-tested programs are not be counted as income.

Under current practice, authorizations for child care may be for full-time care (between 35 and 50 hours per week) or part-time care (less than 35 hours per week), but the number of hours of care are specified for each authorization. Additional time may also be authorized, although a child cannot be authorized for more than 75 hours per week.

DCF uses market surveys to establish the maximum reimbursement amounts Wisconsin Shares will pay for child care in each county. Subsidy amounts are determined by these maximum payment amounts, with downward adjustments made for a family's copay, which depends on the size of the family, income, and other factors. The subsidy is transferred to an electronic benefit transfer (EBT) account established on behalf of the parent at the beginning of each payment period (generally at the beginning of each month).

Parents are free to transfer funds at any time from the EBT account via telephone, website, or an EBT "swipe" card. The charged amounts are immediately and electronically transferred into the child care provider's bank account. Parents are responsible for managing the subsidy they receive and are free to decide whether to reserve a slot at a child care provider, purchase hourly child care, or save subsidy amounts for future use as needed. Parents may select child care providers that charge more than their subsidy amount, but they are responsible for the difference in cost.

DISCUSSION POINTS

Cost to Maintain Wisconsin Shares Subsidies at Current Reimbursement Rates

1. Assembly Bill 43/Senate Bill 70 would decrease the TANF allocation for direct child care services by $52,706,400 annually, based on DCF's estimate that the Wisconsin Shares child care subsidy program would underspend the direct child care services TANF allocation set in 2021 Act 58 by that amount in 2022-23.

2. The downward estimate is the result of two main factors. First, current law allocates funding for YoungStar bonuses (approximately $19 million annually) under the TANF allocation for direct care subsidies. However, as of the beginning of 2021, YoungStar bonus payments ended and were effectively subsumed within the Child Care Counts program. As a result, AB 43/SB 70 does not provide funding for the YoungStar adjustment.

3. Second, provisions of 2019 Act 9 and 2021 Act 58 provided for substantial increases in program spending to support subsidy increases that were anticipated to increase caseloads. However, for several reasons, caseloads decreased rather than increased.

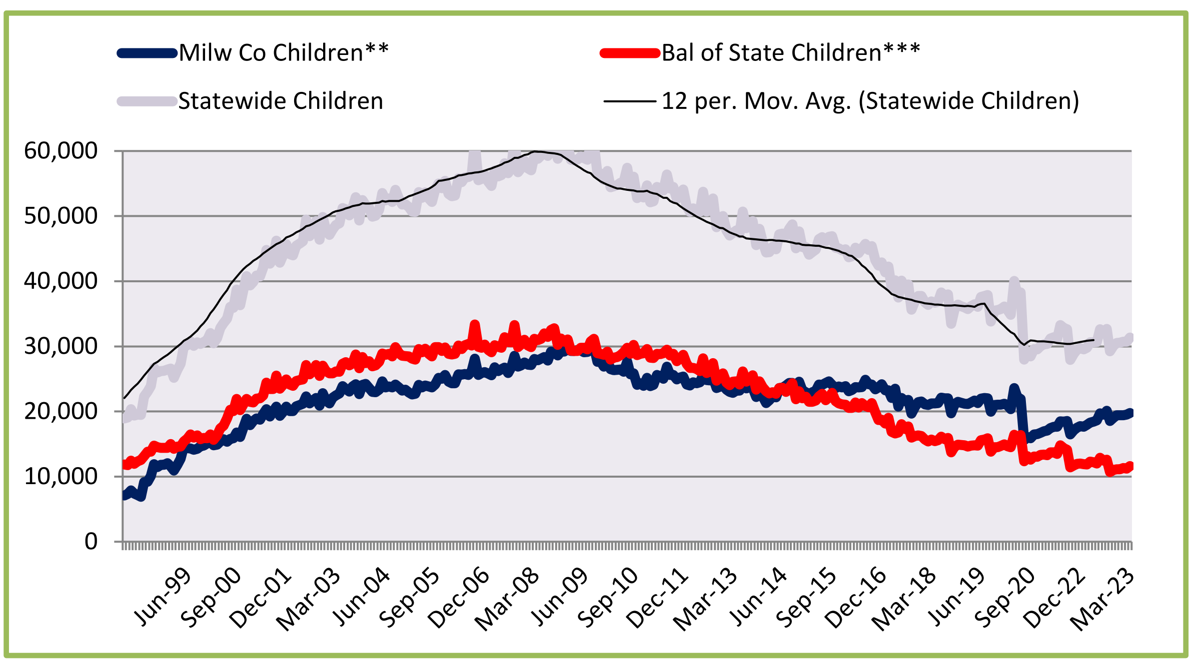
4. The COVID-19 pandemic greatly reduced demand for child care over the last few years. In 2020-21, the number of families (-19%) and children (-17%) participating in Wisconsin Shares decreased substantially compared to the prior year due to social distancing measures necessitated by the pandemic that reduced child care provider capacity and temporarily closed providers. Further, many students transitioned to remote schooling, removing the need for before- and after- school programs. In addition, many families either lost their jobs or worked from home due to the pandemic, further reducing their need (or ability to pay) for child care. Caring for young children under the circumstances was especially difficult as infants and young children could not mask or isolate.

5. Compounding the difficulties of caring for children during the pandemic, COVID vaccines were approved for adult use and distributed long before young children could be vaccinated. The U.S. Food and Drug Administration issued the first emergency use authorization for a COVID-19 vaccine for adults on December 11, 2020. By comparison, it was not until October 29, 2021, that vaccines were authorized for children aged five to 11, and then June 17, 2022, for young children who are at least six months old. As a result, the pandemic directly affected child care long after restrictions for other industries had been rolled back.

6. Due to the lingering effects of the pandemic, overall participation of children (1%) and families (2%) grew only slightly in 2021-22. This depressed spending in the program relative to the forecast, which anticipated strong rebounds from the subsidy increases provided in recent budget acts. Through March, 2023, participation in 2022-23 of children (2%) and families (1%) has continued to slowly regain ground.

7. Although participation in Milwaukee County recovered compared to pre-pandemic participation in 2019, caseloads in the remainder of the state have not. As shown in the following chart, the reduction in the participation of children outside of Milwaukee is part of a long-term trend. Current levels of participation have fallen to nearly those of 25 years ago.

Wisconsin Shares Participation



8. Assuming that YoungStar bonus expenses are addressed as part of a separate item, and based on a review of caseloads and issuance through March, 2023, and using data more recent than available to the Administration during its preparations for AB 43/SB 70, it is estimated that Wisconsin Shares will underspend the base TANF allocation for direct child care services by $83.3 million FED in 2022-23. Assuming issuance continues to recover to levels prior to the COVID-19 pandemic, it is estimated that the TANF allocation needed to maintain Wisconsin Shares subsidies at the January 1, 2022, reimbursement rates could be reduced by $68.9 million FED in 2023-24 and by $53.9 million FED in 2024-25 relative to the base.

9. In addition to the estimated cost of base child care subsidies, the estimated cost to maintain Wisconsin Shares is also increased due policy changes required under federal law. Federal law requires that subsidy payments reflect generally accepted payment practices of child care providers that serve children who do not receive CCDF subsidies, including payments made based on full- or part-time reservations.

10. In a letter dated December 13, 2021, the federal Administration for Children and Families (ACF) conditionally approved the state's CCDF plan for federal fiscal years 2022-2024 with notice that the state's plan did not fully implement the federal standards for equal access. *See* 45 CFR § 98.45 (a) (DCF required to certify that "payment rates. . . are sufficient to ensure equal access, for eligible families in the area . . . to child care services comparable to those provided to families not eligible to receive CCDF assistance . . ."). ACF indicated that current practices are not compliant with federal guidelines and could incur financial penalties.

11. According to DCF, the generally accepted payment practices of child care providers who serve children who do not receive CCDF subsidies is that child care capacity is reserved on a full-time or part-time basis rather than marketed on an hourly basis. Thus, DCF's compliance plan outlined a change to its authorization policies for Wisconsin Shares to that effect.

12. Provisions of AB 43/SB 70 would provide $53,459,800 in 2023-24 and $71,279,700 in 2024-25 to fund the full cost of implementing Wisconsin Shares authorizations based on part-time and full-time authorizations, instead of exact hourly authorizations. Authorizations under 21 weekly hours would receive a part-time rate, and authorizations of 21 hours or more would receive a full-time rate. DCF estimates the cost of this change is $71.3 million on an annualized basis, with the new authorizations beginning October, 2023.

13. Accounting for both the reestimated costs for base subsidies and the changes to authorizations required under federal law, the TANF allocation needed for direct care subsidies is estimated to decrease by $15,440,600 FED in 2023-24 and increase by $17,379,300 FED in 2024-25 (Alternative A1).

14. Alternatively, the Committee could decide that a change in funding in unnecessary and choose to take no action (Alternative A2). The net effect of the changes in authorizations and direct care subsidies is estimated to be $1.9 million over the biennium. Thus, it is not unreasonable to expect that the current TANF allocation could support the needed changes to Wisconsin Shares authorizations without further adjustments. Further, as discussed, Acts 9 and 58 provided for substantial increases reimbursement rates that were anticipated to increase caseloads. However, due

to the COVID-19 pandemic, caseloads decreased rather than increased. It is possible that caseloads and subsidies could increase significantly now that the COVID-19 pandemic has subsided and vaccines are available for young children. Thus, the Committee could find that there is insufficient data to determine funding levels needed for a change in authorization policy, since the pandemic significantly altered caseloads. If necessary, the issue could be reviewed at a later time when DCF has additional caseload and expenditure data showing whether caseloads have stabilized at previous levels.

Expanded Eligibility Thresholds

15. Under current law, applicants are financially eligible for Wisconsin Shares if their annual income is at or below 185% of the FPL. The required family copays increase by $1 for every $3 a participating family's income increases above the 200% FPL phase-out threshold. They remain financially eligible so long as their income remains at or below the phase-out threshold of 85% of the state median income (almost $73,470 for a family of three based on the standard used for the federal low income home energy assistance program).

16. Due to the difference between the initial eligibility threshold and the phase-out threshold, applicants with incomes greater than 185% of the FPL and less than 200% of the FPL are not eligible to participate in Wisconsin Shares, even though other families with the same income may remain in the program because they qualified under the initial 185% FPL threshold.

17. In order to provide for more equitable treatment of applicants with incomes between 185% and 200% of the FPL, the Committee could change current law to set a single initial eligibility and phase-out threshold at 200% of the FPL beginning in 2024-25 (Alternative B1). Under this alternative, participants with income of 200% FPL or lower would qualify for the program, after which any increases in income would result in copayments increasing at a ratio of $1 for every $3 of increased income, up until the subsidy is reduced to zero (or the exit threshold at 85% of the state median income). Applicants with initial incomes above the 200% FPL threshold would remain ineligible for the program.

18. It is estimated that increasing the initial income eligibility threshold from 185% of the FPL to 200% of the FPL would increase expenditures for child care subsidies in Wisconsin Shares by approximately $5,000,000 FED annually. The estimate is derived from the average cost of care using Wisconsin Shares data in 2019 from DCF for a projected income distribution of participating families. The distribution of participating families was estimated by comparing tax sample information provided by the Department of Revenue on the income distribution of federal income tax filers in Wisconsin for tax year 2020.

19. Another option would be to change the phase down of child care subsidies. The increase in copayments for participants with incomes increasing above the 200% phase-out threshold is intended to prevent a "cliff effect" where a relatively small increase in income may cause a much larger loss in public assistance benefits for participants earning income near the exit threshold. The current law increase in copayments effectively creates a marginal tax rate of 33% for participants, because their copayments increase by $1 for every $3 their income increases.

20. This effective marginal tax rate can be reduced by changing the phase down of child care subsidies. The Committee could choose to increase copayments $1 for every $5 a participating family's income increases above the 200% FPL phase-out threshold (as opposed to $1 for every $3 of income) beginning in 2024-25. Compared to current law, it is estimated that changing the phase down in this manner would increase subsidies by $22.0 million FED in 2024-25 (Alternative B2). Alternatively, taken in conjunction with Alternative B1, so that the initial eligibility and phase-down threshold would both be 200% FPL, the change is estimated to increase expenditures by $27.0 million FED annually in 2024-25 (Alternative B3).

ALTERNATIVES

A. Cost to Maintain Wisconsin Shares Subsidies at Current Reimbursement Rates

1. Change the TANF allocation for direct care subsidies by decreasing the base amount by $15,440,600 FED in 2023-24 and increasing it by $17,379,300 FED in 2024-25 to reflect: (a) a reduction of $68,900,400 in 2023-24 and $53,900,400 in 2024-25 to reestimate the cost of direct care subsidies; and (b) an increase of $53,459,800 in 2023-24 and $71,279,700 in 2024-25 to change authorizations for subsidies under Wisconsin Shares to be on a full-time/part-time basis.

ALT A1	Change to Base
FED	$1,938,700

2. Take no action.

B. Expanded Eligibility Thresholds

1. Provide $5,000,000 FED in 2024-25 to set a single initial eligibility and phase-out threshold for Wisconsin Shares subsidies at 200% of the FPL, beginning in 2024-25.

ALT B1	Change to Base
FED	$5,000,000

2. Provide $22,000,000 FED in 2024-25 to change the increase in Wisconsin Shares copayments above the phase-out threshold to $1 for every $5 increase in a participating household's income, rather than $1 for every $3 increase in a participant's income, as under current law, beginning in 2024-25.

ALT B2	Change to Base
FED	$22,000,000

3. Provide $27,000,000 in 2024-25 to: (a) set a single initial eligibility and phase-out threshold for Wisconsin Shares subsidies at 200% FPL; and (b) change the increase in Wisconsin Shares copayments above the phase-out threshold to $1 for every $5 increase in a participating household's income, rather than $1 for to every $3 increase in a participating household's income, as under current law, beginning in 2024-25.

ALT B3	**Change to Base**
FED	$27,000,000

4. Take no action.

Prepared by: John D. Gentry