



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

June 23, 2010

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Earned Income Tax Credit: Section 13.10 Request to Increase Expenditure Authority for Earned Income Tax Credit with Temporary Assistance for Needy Families Block Grant -- Agenda Item IX

On June 8, 2010, the Department of Administration (DOA) filed a request under sections 16.515 and 16.505(2) of the Wisconsin statutes to increase expenditure authority to allow an additional \$29,000,000 in temporary assistance for needy families (TANF) block grant funds to be spent on the earned income tax credit (EITC). By letter dated June 8, 2010, the Co-Chairs of the Joint Committee on Finance indicated that an objection had been raised to the request and that the request would be reviewed at a future meeting of the Committee under section 13.10 of the statutes.

REQUEST

The Department of Administration (DOA) requests increased expenditure authority of \$29,000,000 PR in 2009-10 and 2010-11 for the earned income tax credit; temporary assistance for needy families appropriation [s. 20.835(2)(kf)] in order to spend additional TANF funds in the amount of \$29,000,000 annually for the EITC that have either been reallocated for that purpose or have been requested under the American Recovery and Reinvestment Act of 2009 (ARRA).

BACKGROUND

As described in the separate overview paper, under section 49.175(2) of the Wisconsin statutes, DCF is allowed to reallocate TANF funds that have already been allocated for any TANF purpose if the DOA Secretary approves the reallocation. Significant underspending in the Wisconsin Shares program has allowed DCF to reallocate TANF funds in the amount of \$29,000,000 in 2009-10 and \$9,759,300 in 2010-11 for the EITC. However, these TANF funds for the EITC cannot be spent for that purpose unless the expenditure authority for the EITC supplement

appropriation [s. 20.835(2)(kf)] has a corresponding increase.

Likewise, as described in a separate ARRA request paper, the Governor has requested that TANF emergency funds in the amount of \$19,240,700 in 2010-11 under ARRA be allocated as TANF funding for the EITC. Should the Committee approve that request, although allocated, those TANF funds could not be spent on the EITC unless the expenditure authority for the EITC supplement appropriation has a corresponding increase. Further information on the TANF reallocations and ARRA request to spend additional TANF funds for the EITC can be found in the overview paper and in the ARRA request paper.

The reallocations and the ARRA request together would allocate an additional \$29,000,000 FED annually for the EITC, and the request described in this paper would increase expenditure authority for the EITC supplement appropriation by \$29,000,000 PR annually so that these additional TANF funds could be spent on the EITC. [The TANF funds are initially appropriated as FED in DCF and then transferred to a PR-S appropriation for the EITC under shared revenue and tax relief.]

ANALYSIS

The EITC is currently funded with TANF and GPR. The EITC is estimated to cost \$126.7 million in 2009-10 and \$130.5 million in 2010-11. Of these amounts, the EITC is budgeted at \$6.7 million TANF and \$120.0 million GPR in 2009-10 and \$6.7 million TANF and \$123.8 million GPR in 2010-11.

If the ARRA request for additional TANF funds for the EITC and this request for an increase in expenditure authority for the EITC supplement appropriation are approved, then funding for the EITC would total \$35.7 million TANF and \$91.0 million GPR in 2009-10 and \$35.7 million TANF and \$94.8 million GPR in 2010-11.

The Committee could deny the request. Approval of this request to increase expenditure authority for the EITC supplement appropriation would reduce the amount of TANF available for other TANF-related programs. As shown in Attachment 1 to the overview paper, if none of DCF's requests were approved, the estimated TANF ending balance would be \$153.5 million at the end of 2010-11, \$92.7 million at the end of 2012-13, and \$5.9 million at the end of 2014-15. However, as shown in Attachment 2, if all of DCF's pending requests were approved, there would be an estimated deficit in the TANF program of \$150.8 million by the end of 2014-15. This deficit would be reduced by \$58.0 million if this request were denied.

On the other hand, if this request were approved, the condition of the general fund would improve by \$29.0 million annually during the current biennium.

Alternatively, if the Committee denies the ARRA request to increase TANF funding for the EITC by \$19,240,700 in 2010-11, the Committee could approve only the increase in expenditure

authority for the EITC supplement appropriation that has already been reallocated by DCF with the DOA Secretary's approval (\$29,000,000 PR in 2009-10 and \$9,759,300 PR in 2010-11).

On the other hand, if the Committee approves the ARRA request to increase TANF funding for the EITC by \$19,240,700 in 2010-11, the Committee could approve the expenditure authority increase for this amount, but not for the reallocations.

ALTERNATIVES

1. Approve the Governor's request to increase expenditure authority by \$29,000,000 PR annually for the earned income tax credit; temporary assistance for needy families appropriation [s. 20.835(2)(kf)] in order to spend additional TANF funds in the amount of \$29,000,000 annually for the EITC that have either been reallocated for that purpose or have been requested under the ARRA.

2. Modify the request to increase expenditure authority by \$29,000,000 PR in 2010-11 and \$9,759,300 PR in 2010-11 to reflect the reallocations, but not the ARRA request.

3. Modify the request to increase expenditure authority by \$19,240,700 PR in 2010-11 to reflect the ARRA request, but not the reallocations.

4. Deny the request.

Prepared by: Kim Swissdorf