



## Legislative Fiscal Bureau

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May 21, 2001

Joint Committee on Finance

Paper #1045

### *Temporary Assistance for Needy Families (TANF)*

### **Direct Child Care Program (DWD – Economic Support and Child Care)**

[LFB 2001-03 Budget Summary: Page 737, #10 & Page 738, #11]

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#### **CURRENT LAW**

The direct child care program provides funds for: child care subsidies through the Wisconsin Shares program; local administration of Wisconsin Shares; on-site child care at job centers and counties; and migrant child care. Base funding for direct child care is \$181,050,000. However, the actual amount available in 2000-01 is \$237,180,100, including funds added by the Joint Committee on Finance in July, 2000, and April, 2001.

Under current law, the Wisconsin Shares program is administered by the Department of Workforce Development (DWD) through local Wisconsin Works (W-2) agencies and county human and social services departments. To be eligible for child care subsidies, families must generally have an initial income of no more than 185% of the federal poverty level. Once eligible, families retain eligibility until gross income exceeds 200% of the federal poverty level. There are no resource limits for the program. The individual applying for child care must be a custodial parent, guardian, foster parent, legal custodian or person acting in place of a parent. The subsidy can be provided for children under age 13 and for children under age 19 who are physically or mentally incapable of their own care.

Families must need child care to do any of the following: (a) work in an unsubsidized job; (b) work in a W-2 employment position; (c) participate in the food stamp employment and training (FSET) program; (d) participate in basic education or a course of study to obtain a GED, if the W-2 agency determines that basic education would facilitate the individual's efforts to maintain employment; (e) participate in a course of study at a technical college or participate in educational courses to provide an employment skill, if the W-2 agency determines that basic education would facilitate the individual's efforts to maintain employment; (f) meet the

Learnfare school attendance requirement for children of W-2 participants; or (g) obtain a high school diploma or participate in a course of study to obtain a GED if the parent is age 19 or younger. An individual may receive a child care subsidy under items (d) and (e) for up to two years.

Families are required to pay a weekly copayment depending on the family's gross income, family size, the number of children receiving child care, and the type of care selected. Copayments are not required for the following types of participants: (a) teen parents who are Learnfare participants; (b) FSET participants; and (c) foster care and kinship care parents who have court-ordered placement of a child. The minimum copayment for the type of child care and the number of children receiving child care is required for the following participants: (a) individuals under age 20 who are attending high school or participating in a course of study to obtain a GED; (b) non-court-ordered kinship parents; and (c) parents who have left a W-2 position for an unsubsidized job within the last month. Families with children who are authorized for child care assistance for 20 hours or less are responsible for 50% of the copayment amount. The copayment schedule is structured so that the required copayment will not exceed 11.6% of the family's income. DWD has the authority to change copayments administratively to account for the following factors: (a) child care price changes; (b) the amount of available child care funding; (c) inflation; (d) changes in the federal poverty level; and (e) other economic factors that affect the cost of child care, such as demand. If the copayments will increase by more than 10%, the change must be promulgated by rule.

On a local level, W-2 agencies determine eligibility for the child care subsidy program then refer individuals to a county department of social or human services for child care assistance. The county departments administer the program and do all of the following: (a) determine a parent's copayment; (b) provide a voucher to individuals for the payment of child care services or otherwise reimburse child care providers; (c) set maximum reimbursement rates for day care providers; (d) certify providers that are not licensed by the state; and (e) assist eligible individuals to identify and select appropriate child care. In most counties, the W-2 agency and the county department are the same entity.

Each county is required to establish the maximum child care subsidy that will be paid to a licensed child care provider on an annual basis, subject to DWD review and approval. The rates are determined by surveying licensed group and licensed family day care centers for the rates they charge to the general community. The rate is set so that at least 75% of the number of places for children with licensed providers could be purchased at or below the maximum rate. The maximum rate for regular certified providers cannot exceed 75% of the rate for licensed family day care providers and the maximum rate for provisionally certified providers cannot exceed 50% of the rate for licensed family day care providers.

Under current law, foster care parents and court-ordered short-term kinship care relatives can receive child care subsidies if the child's biological or adoptive family has income at or below 200% of the federal poverty level. If the child's biological or adoptive family has income above the eligibility limits, then the foster or kinship care parents must have income at or below

185% of the federal poverty level. In contrast, court-ordered long-term kinship care relatives and all non-court-ordered kinship care relatives fall under the general eligibility standard, and kinship care relatives must have initial income at or below 185% of the federal poverty level.

Current law also prohibits DWD from distributing child care subsidies to persons who reside with the child, unless the county determines that the care is necessary because of a special health condition of the child. Parents who do not reside with the child are currently not subject to this provision. The term “parent” is currently defined as a custodial parent, guardian, foster parent, treatment foster parent, legal custodian or person acting in place of a parent.

## **GOVERNOR**

Provide \$242,475,000 annually for child care subsidies provided through the Wisconsin Shares program. The Governor's proposed funding level is a \$5,294,900 annual increase over the amount budgeted in 2000-01 (\$237,180,100). The bill provides that if DWD determines that funds allocated for child care subsidies are insufficient to provide a subsidy to eligible recipients, the Department could develop a plan to limit participation in the program. The plan could have different eligibility requirements than those required under current law. DWD would be required to submit the plan to the Secretary of the Department of Administration (DOA) for approval and DWD could implement the plan if the DOA Secretary approves the plan.

The bill would also modify two eligibility requirements for child care subsidies. The bill would make the financial eligibility requirements the same for both long- and short-term court-ordered kinship care. Under current law, court-ordered short-term kinship care relatives can receive child care subsidies if the child’s biological or adoptive family has income at or below 200% of the federal poverty level, while long-term court-ordered kinship care relatives must meet the general income eligibility standard of 185% of the federal poverty level. Under the bill, both long- and short-term court-ordered kinship care relatives would be eligible for child care subsidies if the biological or adoptive parents have income at or below 200% of the federal poverty level. All non-court-ordered kinship care relatives would still be subject to the general income eligibility standard of 185% of the federal poverty level. This provision would first apply to eligibility determinations made on the day after publication.

The bill would also prohibit DWD from distributing child care subsidies to all parents, whether or not they reside with their child, unless the county determines that the care is necessary because of a special health condition of the child. Under current law, providers cannot receive child care reimbursements for children that reside with them. This provision would first apply to child care funds distributed on the day after publication.

## **DISCUSSION POINTS**

1. Wisconsin’s child care program is composed of three elements: (a) the direct child care program, which provides child care subsidies through the Wisconsin Shares program, on-site

child care at job centers and counties, as well as migrant child care services; (b) programs to improve the quality and availability of child care; and (c) the local pass-through program, which provides funds to local entities for child care activities. There are three sources of funds for Wisconsin's child care program: (a) the federal child care and development fund (CCDF); (b) the federal temporary assistance for needy families (TANF) block grant; and (c) GPR required to be spent as maintenance of effort for CCDF.

2. Table 1 below details the proposed amount of each source of revenue for the next biennium and the proposed uses of the funds, as corrected by the Department of Administration's (DOA) errata list. This paper focuses on the direct child care program, while papers #1047, #1048 and #1049 focus on programs to improve child care quality and availability and the local pass-through program.

**TABLE 1**

**Child Care Sources of Funding and Proposed Uses for 2001-03**

	<u>2001-02</u>	<u>2002-03</u>
<b>Funding Sources</b>		
GPR	\$16,449,400	\$16,449,400
CCDF	78,114,100	78,114,100
TANF	<u>181,384,600</u>	<u>181,554,900</u>
	\$275,948,100	\$276,118,400
<b>Uses</b>		
Direct Child Care	\$242,475,000	\$242,475,000
Programs to Improve Quality and Availability of Child Care	16,206,000	16,390,200
Local Pass-Through Program	<u>17,267,100</u>	<u>17,253,200</u>
	\$275,948,100	\$276,118,400

**Child Care Subsidy Funding**

3. Child care expenditures have increased dramatically both nationwide and in Wisconsin. According to a February, 2001, report by the federal General Accounting Office (GAO) entitled *Child Care: States Increased Spending on Low Income Families*, total child care expenditures by states rose from \$4,120 million in federal fiscal year (FFY) 1997 to \$6,965 million in FFY 1999 in constant 1997 dollars, which represents an increase of 69%. In Wisconsin, the GAO reported that expenditures increased from \$58 million in state fiscal year 1994-95 to \$166 million in 1999-00 in constant 1997 dollars, which represents an increase of 186%. The GAO reported that other states also had large increases over this time frame, including a 166% increase in California, a 95% increase in Michigan and Connecticut and a 75% increase in Texas.

4. Other Midwestern states have also experienced dramatic growth in their child care subsidy programs. In Illinois, annual caseload growth has ranged from 25% to 33% in the last three years. Expenditures were \$263 million in 1997 and are estimated at \$664 million for 2000-01. According to state officials, the demand is expected to increase by 5% in 2001-02, resulting in the need for an additional \$30 million. In Michigan, annual caseload growth is 6% to 8%. Expenditures were \$203 million in 1997 and are estimated at \$494 million for 2000-01. Michigan has provided sufficient funding for the program and is considering increasing eligibility limits from 185% to 200% of the federal poverty level. Minnesota has two programs, one for families receiving TANF assistance and another for other families. While Minnesota has had sufficient funds to meet demand for its TANF program, funding for the other program is capped, which has resulted in a waiting list of 3,438 families as of January 31, 2001. The state is considering consolidating the child care assistance program so that initial eligibility for all families would be 50% of state median income and maximum eligibility would be 75% of state median income.

5. Demand for the Wisconsin Shares child care subsidy program has been rising ever since it began in September, 1997. The average monthly growth rate in the number of families in the program has been about 2.0% since the start of the program, representing approximately 26.8% annual growth. In March, 2001, there were 23,446 families participating in the program, representing 40,896 children. With a 2% monthly growth rate, expenditures are projected to equal \$237,180,100 by the end of 2000-01. Funds allocated for the direct child care program in Act 9 and through a Committee action in July, 2000, totaled \$200,858,200, resulting in a projected deficit of approximately \$36,321,900. To address this projected shortfall, the Committee acted on April 24, 2001, to provide \$35,475,100 FED and \$846,800 GPR for a total of \$36,321,900.

6. It is reasonable to expect that demand for Wisconsin Shares will continue to grow in the next biennium. The Legislative Audit Bureau estimated that the percentage of eligible children participating in child care subsidy programs from April through September, 1998, was 15.5% nationwide. In Wisconsin, the percentage of eligible participants served during that time was estimated at 13.6%. Other Midwestern states were serving higher percentages of the eligible population during that time period: 23.8% in Ohio, 24.6% in Michigan and 27.1% in Illinois.

7. The pace of growth could begin to slow in the next biennium. There has been a 31.5% increase in the number of families participating in the child care subsidy program from March, 2000, to March, 2001. A large portion of this increase can be attributed to law changes that went into effect in March, 2000, that significantly expanded eligibility for the child care subsidy program. Since the Governor's budget bill does not propose law changes that would significantly change eligibility, the pace of growth may not be as dramatic as in the past year. If the subsidy program grows at a rate of 15% in 2001-02 and 10% in 2002-03, the amount of funding needed to continue the program with no eligibility changes would be approximately \$274.5 million in 2001-02 and \$305.6 million in 2002-03. However, if the participant growth rate exceeds these projections, additional funds could be needed during the biennium.

8. The bill would also change the eligibility requirements for court-ordered long-term kinship care relatives and prohibit providing subsidies to parents who do not reside with their

children, unless the county determines that the care is necessary because of a special health condition of the child. These changes are not anticipated to have any significant fiscal effect, keeping total estimated costs at \$274.5 million in 2001-02 and \$305.6 million in 2002-03.

9. The Governor's proposed budget includes \$242,475,000 annually in the 2001-03 budget for the direct child care program. Therefore, the program is estimated to be underfunded by approximately \$32.0 million in 2001-02 and \$63.1 million in 2002-03, for a total of \$95.1 million over the biennium.

### **Options to Reduce Program Costs**

10. To address the projected shortfall, the Committee could reduce costs in the child care subsidy program. The following options are discussed in this paper: (a) the Governor's proposal to have DWD develop a plan to limit participation; (b) increasing copayments; (c) modifying reimbursement rates; (d) imposing stricter income limitations; (e) establishing waiting lists; or (f) implementing of combination of these alternatives. Each option is discussed in detail below.

#### ***a. DWD Plan***

11. Due to increasing demand for the Wisconsin Shares program, the Governor proposed providing DWD with authority to develop a plan to limit participation in the program if sufficient funds are not available to meet demand. The plan could have different eligibility requirements than those required under current law, such as stricter income limits or additional limitations on the types of activities required to participate in the program. DWD would be required to submit the plan to the Secretary of the Department of Administration (DOA) for approval before it could be implemented. Under current law, DWD would also be allowed to modify the copayment requirements.

12. If the Legislature chooses this option, DWD would likely have to develop a plan within the first few months of the biennium, because a deficit of \$32.0 million is projected for 2001-02. DWD would also need to program any changes necessary into the CARES computer system, which could take several months. The longer DWD waits to implement a plan, the more severe and abrupt the modifications to the program would have to be.

13. Because changes would likely be necessary from the very beginning of the fiscal year, the Committee may wish to make changes as part of the budget bill to exercise more legislative control over the types of changes made. Alternatively, the Committee could modify the Governor's proposal to require that DWD's plan to limit participation also be approved by the Joint Committee on Finance so that it can decide whether to accept DWD's plan, modify the plan, or add additional funds to the program.

#### ***b. Increase Copayments***

14. A second option to reduce program costs would be to increase copayments required

of participants. Copayments are currently capped at 11.6% of participants' gross income. Prior to March, 2000, the maximum copayment was 16% of gross income. Large increases in copayments would be necessary to generate significant savings because copayments currently account for only 9% of the cost of care. In addition, approximately 25% of participants from July to December, 2000, had incomes of less than or equal to 70% of the federal poverty level, and were therefore, only required to pay the minimum copay, which is currently \$4 per week for one child in licensed care and \$2 per week for one child in certified care.

15. There are many different ways to change the copay schedule. A three-month implementation delay would be necessary for DWD to make necessary programmatic and computer changes. These scenarios assume an October 1, 2001, implementation date, but the costs would have to be recalculated if the Legislature does not adopt a budget at the start of the fiscal year. In addition, all copay alternatives presented in this paper assume that, under current law, DWD will change its copay schedules annually to adjust for increases in the federal poverty level and will keep the maximum copayment at 11.6% of gross income. One option would be to increase the copayment by a specific dollar amount for all participants over the current law copay schedule for each year. This would cause relatively large percentage increases for participants in the lower range of the copay schedule and smaller percentage increases for participants in the higher range of the copay schedule. A \$1 increase over the current law copays for each year would result in savings of approximately \$0.9 million in 2001-02 and \$1.3 million in 2002-03 and would increase copays as a percentage of gross income from a maximum of 11.6% to 11.9% in 2001-02 and 11.8% in 2002-03. A \$5 increase would reduce projected costs by approximately \$4.4 million 2001-02 and \$6.6 million in 2002-03 and would increase copays as a percentage of gross income from a maximum of 11.6% to 12.9% annually. To revert back to the 16% of income maximum that was in place prior to March, 2000, copays would have to be increased by \$16.50 over current law copays for each year and would reduce projected costs by approximately \$14.7 million in 2001-02 and \$21.6 million in 2002-03.

16. Another option would be to increase copays for all participants by an equal percentage. This would result in small dollar increases for participants in the lower range of the copay schedule and larger dollar increases for participants in the higher range of the copay schedule. A 5% increase over the current law copays for each year would result in a savings of approximately \$1.1 million in 2001-02 and \$1.7 million in 2002-03 and would increase copays as a percentage of gross income from a maximum of 11.6% to 12.2% annually. A 15% increase would reduce projected costs by approximately \$3.2 million 2001-02 and \$5.0 million in 2002-03 and would increase copays as a percentage of gross income from a maximum of 11.6% to 13.4% in 2001-02 and 13.3% in 2002-03. To revert back to the 16% of income maximum that was in place prior to March, 2000, copays would have to be increased by 38% over current law copays for each year and would reduce projected costs by approximately \$8.2 million in 2001-02 and \$12.6 million in 2002-03.

17. The two options to revert back to maximum copayments of 16% of gross income have different cost savings. The savings would be less if copayments are increased by a percentage than if they were increased by a specific dollar amount because many participants are in the lower

income ranges of the copayment schedule and the dollar value of these participants' copayment increases would be less than if all participants had a flat copayment increase.

18. Other options to change copay requirements could include increasing copayments only for families at higher income levels to avoid negative impacts on families with lower income levels.

19. However, the Legislature may not wish to increase copayments because affordability of child care is a pressing issue for many families both nationwide and in Wisconsin. According to a December, 2000, study by the Urban Institute entitled *Child Care Expenses of America's Families*, 40% of low-earning families with incomes of less than 200% of the federal poverty level had out-of-pocket expenses for child care nationwide, compared to 38% in Wisconsin. Nationwide, these families paid an average of 15.9% of their earnings for child care. In Wisconsin, this percentage was 16.3%. In addition, the study found that 29% of Wisconsin's low-earning families were paying more than 20% of their earnings on child care.

In addition, the U.S. Department of Health and Human Services recommends in its regulations on the child care and development fund that copayment scales require a low-income family to pay no more than 10% of its income for child care to ensure equal access. While not all states have complied with this guideline, the Legislative Audit Bureau's child care audit released in January, 2001, states that copayment rates in Wisconsin are generally higher than in other Midwestern states. Table 2 below illustrates the percentage of monthly income a family of three with one infant and one toddler would have to pay in various Midwestern states.

**TABLE 2**  
**Monthly Copayment Comparison (July 2000)**  
**Out-of-Pocket Child Care Costs as a Percent of Income**

<u>State</u>	<u>Families With Income at 100% of Federal Poverty Level</u>	<u>Families With Income at 150% of Federal Poverty Level</u>
Illinois	17.5%	13.1%
Indiana	0.0%	7.3%
Iowa	3.7%	Ineligible
Michigan	5.0%	3.3%
Minnesota	0.4%	3.0%
Ohio	0.2%	9.7%
Wisconsin	7.6%	10.7%



**c. *Modify Reimbursement Rates***

20. A third option would be to modify the reimbursement rates for providers. DWD is required to set reimbursement rates on an annual bases. Each county establishes the maximum child care subsidy that will be paid to a licensed child care provider on an annual basis, subject to DWD review and approval. The rates are determined by surveying licensed group and licensed family day care centers for the rates they charge to the general community. The rate is set so that at least 75% of the number of places for children with licensed providers could be purchased at or below the maximum rate. The maximum rate for Level I certified providers may not exceed 75% of the rate for licensed family day care providers and the maximum rate for Level II certified providers may not exceed 50% of the rate for licensed family day care providers.

21. One option would be to freeze the reimbursement rates for the entire biennium and not have an annual increase. This would save approximately \$1.9 million in 2001-02 and \$8.3 million in 2002-03. A second option would be to allow the reimbursement rates to grow in 2001-02, but not in 2002-03. This would generate savings of approximately \$6.3 million in 2002-03. However, as the costs of child care increase, fewer providers would likely be willing to participate in the program and families would have fewer options for child care providers. Federal law requires states to certify that the payment rates for child care services are sufficient to ensure equal access for eligible children to comparable child care services provided to children whose parents are not eligible to receive assistance. If the Committee chooses this option, the state would have to be able to justify that families receiving child care subsidies are still receiving equal access. In addition, statutory provisions would have to be changed to provide a temporary or permanent exception to the requirement that counties set the reimbursement rate for licensed family providers so that at least 75% of the number of places for children can be purchased at or below the maximum rate.

**d. *Income Eligibility Limits***

22. A fourth option would be to impose stricter income eligibility limits. Initial income eligibility is currently 185% of the federal poverty level and families can remain eligible until their incomes reach 200% of the federal poverty level. According to federal law, states can set their income limitations up to 85% of the state median income. In Wisconsin, 85% of median income is \$49,300 for a family of four for FFY 2001, which is approximately 275% of the federal poverty level. Prior to March, 2000, initial eligibility was 165% of the federal poverty level. Changing initial eligibility back to 165% of the federal poverty level would result in a savings of approximately \$6.6 million in 2001-02 and \$12.2 million in 2002-03, assuming an October 1, 2001, implementation date. Changing initial eligibility to 115% of the federal poverty level would reduce projected costs by approximately \$27.4 million in 2001-02 and \$51.4 million in 2002-03, assuming an October 1, 2001, implementation date. Under these two scenarios, families would remain eligible for the program until their incomes reach 200% of the federal poverty level.

23. While families currently receiving child care subsidies would be allowed to remain part of the program, limiting eligibility would eliminate access to the program for some families. Under the option to reduce initial eligibility to 165% of the federal poverty level, an estimated 1,000

families in 2001-02 and 1,800 families in 2002-03 anticipated to seek the subsidy would not have access to the program. Under the option to reduce initial eligibility to 115% of the federal poverty level, families that would be denied access to the program are estimated at 3,000 in 2001-02 and 5,700 in 2002-03. The smaller caseload reductions in the first year are primarily due to the October 1, 2001, implementation date.

24. It could be argued that income eligibility levels should not be decreased because doing so would heighten affordability problems for families in the excluded income range. In addition, some states have more generous income eligibility standards than Wisconsin. According to the State Policy Documentation Project database maintained by the Center for Budget and Policy Priorities and the Center for Law and Social Policy, state income eligibility guidelines for families of three varied from 125% of the federal poverty level in South Carolina to 330% of the federal poverty level in Connecticut, as of October, 1999. In the Midwest, Minnesota had higher income limitations than Wisconsin at 275% of the federal poverty level. Limits in other Midwestern states as percentages of the federal poverty level were as follows: 157% in Illinois, 143% in Indiana, 155% in Iowa, 185% in Michigan and 182% in Ohio.

*e. Waiting Lists*

25. A fifth option to limit costs would be to place eligible participants on waiting lists. If the number of participants were capped at the number of children being served at the end of June, 2001, and a waiting list were implemented, projected costs would be reduced by approximately \$33.1 million in 2001-02 and \$59.6 million in 2002-03. This would almost reduce costs down to the level funded by the Governor. This means that an estimated 3,300 families in 2001-02 and 5,800 families in 2002-03 anticipated to seek the subsidy would not have access to the program. If the state waited three months to implement a waiting list, projected costs would be reduced by approximately \$22.1 million in 2001-02 and \$59.6 million in 2002-03, leaving approximately 2,200 families in 2001-02 and 5,800 families in 2002-03 without access to the program.

26. According to the Children's Defense Fund, at least 15 states had waiting lists for child care subsidies as of March, 2000: Alabama, Alaska, Arkansas, California, Florida, Georgia, Maine, Massachusetts, Minnesota, Mississippi, New York, North Carolina, Tennessee, Texas and Virginia.

27. Child care waiting lists may not be desirable because of their capricious effect. If a waiting list has no system of priorities, families already receiving child care subsidies would be able to remain on the program while new families would not be able to participate. New families with very low income levels would not have access to the program, while families with higher incomes already receiving the subsidy could remain on the program.

28. Waiting lists could also impact the W-2 program. A waiting list could undermine the philosophy of W-2, which is to provide support services that will enable people to work. In addition, federal regulations state that if a W-2 participant is a single custodial parent caring for a child under age six, the state may not reduce or terminate assistance based on the parent's refusal to engage in

required work if he or she demonstrates an inability to obtain needed child care because: (a) appropriate care within a reasonable distance is unavailable; (b) informal child care by a relative or under other arrangements is unavailable or unsuitable; (c) appropriate and affordable formal child care arrangements are unavailable. Therefore, if child care subsidies are not available because there is a waiting list, the W-2 agency would not be permitted to sanction participants who do not participate in work requirements. If a state is determined to have violated this provision, the federal government can reduce the state's TANF grant by up to 5% for the immediately succeeding federal fiscal year unless the state demonstrates that it had reasonable cause or achieves compliance under a corrective compliance plan. If the TANF block grant is reduced, the state must expend its own funds to replace the reduction in the grant.

29. If W-2 participants are denied child care funds and are unable to work, then the state's worker participation rates will decrease. However, this is not likely to have much of an impact because the adjusted worker participation rates required by the federal government in FFY 2000 were 0% for all families and 17% for two-parent families. If the state does not comply with the minimum worker participation requirements, the federal government can reduce the TANF grant from 5% to 21%, depending on how many years the state fails to meet the requirements and the degree of noncompliance. If the TANF block grant is reduced, the state must expend its own funds to replace the reduction in the grant.

30. In order to ensure that W-2 participants receive child care services, a system of priorities could be established for a waiting list or there could be exemptions to the waiting list. Exemptions could be created for persons participating in W-2 employment positions and/or with income less than 115% of poverty. Keeping current eligibility guidelines and implementing a waiting list for those below 115% of the federal poverty level would reduce projected costs by approximately \$8.3 million in 2001-02 and \$22.4 million in 2002-03. This means that an estimated 1,000 families in 2001-02 and 2,600 families in 2002-03 anticipated to seek the subsidy would not have access to the program. Changing the waiting list threshold to 150% of the federal poverty level would reduce projected costs by approximately \$3.2 million in 2001-02 and \$8.6 million in 2002-03, leaving approximately 400 families in 2001-02 and 1,200 families in 2002-03 without access to the program.

31. DWD indicates that it would need several months lead time to establish a waiting list system on its computer system. DWD would have to decide whether the waiting list would be by county, by state, how much information to gather from waiting list applicants and how to assign and weight priorities.

*f. Combinations of Alternatives*

32. The options described above could be combined in numerous ways to reduce projected costs to the level funded by the Governor's budget bill. It is important to note that alternatives discussed in the preceding sections cannot be added together to produce combinations of alternatives because the variables interact. A few options are discussed below and other options could be estimated for the Committee. All options assume an October 1, 2001, implementation date

to allow DWD to make any necessary programmatic and computer system changes.

33. One option would be to limit initial eligibility to 115% of the federal poverty level, allow no growth in reimbursement rates and to require a 20% increase in copays over the current law copay for each year. Families could remain eligible for subsidies until their income reaches 200% of the federal poverty level. This option would reduce projected costs by approximately \$32.6 million in 2001-02 and \$62.5 million in 2002-03 and would cost approximately the same as the amount provided by the Governor over the biennium. The impact on participants would be an increase in the maximum copay as a percentage of gross income from 11.6% to 14%. In addition, an estimated 3,000 families in 2001-02 and 5,700 families in 2002-03 anticipated to seek the subsidy would not have access to the program.

34. A second option would be to begin a waiting list in October, 2001, limit growth in reimbursement rates to the first year of the biennium and require a 10% increase in copays over the current law copay for each year. This option would reduce projected costs by approximately \$26.8 million in 2001-02 and \$67.2 million in 2002-03 and would cost approximately \$1.2 million more than the biennial amount provided by the Governor. The impact on participants would be an increase in the maximum copay as a percentage of gross income from 11.6% to 12.8%. In addition, an estimated 2,500 families in 2001-02 and 5,800 families in 2002-03 anticipated to seek the subsidy would not have access to the program.

35. A third option would be to begin a waiting list in October, 2001, and have no growth in reimbursement rates in either year of the biennium. This option would reduce projected costs by approximately \$26.5 million in 2001-02 and \$66.2 million in 2002-03 and would cost approximately \$2.5 million more than the biennial amount provided by the Governor. This option would not change the maximum copay as a percentage of gross income. However, an estimated 2,500 families in 2001-02 and 5,800 families in 2002-03 anticipated to seek the subsidy would not have access to the program.

### **Options to Fully Fund Child Care**

36. Another option would be to fully fund the Wisconsin Shares program by reducing funding for other programs included in the TANF program. Papers #1046, #1047, #1048 and #1049 detail options for providing funding for direct child care. These papers focus on the indirect child care program, local pass-through program, as well as other TANF-funded programs. Alternatively, additional state funding could be provided.

### **Changes to Eligibility Requirements in the Bill**

#### ***a. Kinship Care***

37. The bill would make the eligibility requirements for long- and short-term court-ordered kinship care relatives consistent. According to DWD, the discrepancy in eligibility was the unintentional result of statutory changes in the last budget. Local W-2 agencies have been treating these two types of kinship care relatives the same, despite the law's distinctions. Therefore, DWD

states that the fiscal effect of this change would be minimal.

38. However, under the proposed change, not all kinship care families would be subject to the same child care subsidy eligibility requirements. All non-court-ordered kinship care relatives would continue to have to meet the general eligibility guidelines. These kinship care relatives would need to have initial income at or below 185% of the federal poverty level. It could be argued that the eligibility for non-court-ordered kinship care relatives should also be revised to be consistent with court-ordered kinship care. This would allow the income of the biological or adoptive parents to be used when determining income instead of the kinship care relative's income and would move the initial eligibility requirement from 185% to 200% of the federal poverty level. There are currently approximately 160 children in non-court-ordered kinship care per month. However, it is not known how many additional kinship care relatives would join the child care program because income data is not available for kinship care parents. Due to the anticipated shortfall in the child care subsidy program, it could be argued that eligibility changes that could result in additional costs should not be considered at this time.

***b. Child Care Reimbursement to Parents***

39. The bill would modify a current provision stating that child care reimbursement cannot be paid to a person who resides with the child, unless the county determines that the care is necessary because of a special health condition of the child. The new provision would clarify that parents cannot receive child care reimbursement, regardless of whether or not they reside with the child. "Parent" is defined as a custodial parent, guardian, foster parent, treatment foster parent, legal custodian or person acting in place of a parent. According to DWD, this provision is necessary because there have been a few cases where parents were determined to be eligible for child care reimbursement for their children because the parent was providing care at a different location than the home. According to DWD, the proposed change would clarify that parents should not receive child care reimbursements to care for their own children. This proposal is also anticipated to have a minimal impact on program costs.

40. The Committee may also want to consider expanding this prohibition to noncustodial parents. Noncustodial parents do not meet the definition of parent currently included in the statutes and would therefore not be prohibited from receiving reimbursement. While DWD is not aware of any instances where noncustodial parents are receiving child care subsidies to care for their own children, making this change would be consistent with DWD's policy goal of not allowing parents to receive child care reimbursement for care of their own children. This alternative is not anticipated to result in any significant impact on costs.

**ALTERNATIVES TO BILL**

**Approve Governor's Recommendations**

1. Approve the Governor's recommendation to:

- a. Provide annual funding of \$242,475,000 for child care subsidies.
  - b. Allow DWD to submit a plan to the Secretary of DOA for approval to limit participation in the Wisconsin Shares program if DWD determines that funds allocated for child care subsidies are insufficient to provide a subsidy to eligible recipients.
  - c. Modify eligibility requirements to make eligibility requirements for court-ordered long-term and short-term kinship care consistent.
  - d. Clarify that parents cannot receive child care reimbursements for caring for their own children, whether or not they reside with the child.
2. Modify the Governor's proposal to specify that any plan prepared by DWD and approved by DOA to limit participation in the child care subsidy program would be subject to approval by the Joint Committee on Finance through a 14-day passive review process.

### **Reduce Child Care Subsidy Costs**

3. Make one or more of the following modifications to the Wisconsin Shares child care subsidy program to reduce projected costs. Costs for each option are not included because they will vary depending on the specific combination chosen.
  - a. Modify the copayment schedule in one or both fiscal years
  - b. Freeze reimbursement rates to child care providers for both fiscal years, or just in the second fiscal year.
  - c. Limit initial income eligibility to a level below 185% of the federal poverty level.
  - d. Begin a waiting list for all new participants or establish a waiting list for all participants above a specific federal poverty level.

### **Program Eligibility Changes in the Bill**

4. Modify the Governor's proposal to make the eligibility requirements for non-court-ordered kinship care relatives the same as for court-ordered kinship care relatives. This option would allow the income of the biological or adoptive parents to be used when determining eligibility instead of the income of the kinship care parents. It would also raise the initial eligibility threshold to 200% of income for these participants.
5. Modify the Governor's proposal to specify that child care reimbursement cannot be paid to noncustodial parents, unless the county determines that the care is necessary because of a special health condition of the child.

### **Maintain Current Law**

6. Maintain current law by: (a) denying the proposed funding increase; (b) maintaining the current eligibility rules for long-term court-ordered kinship care relatives; and (c) maintaining the current prohibition against providing child care reimbursement for children who reside with the child care provider.

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