



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #1049

Temporary Assistance for Needy Families (TANF)

Child Care Local Pass-Through Program (DWD -- Economic Support and Child Care)

[LFB 2001-03 Budget Summary: Page 739, #13]

CURRENT LAW

The local pass-through child care program was created through a request to the Joint Committee on Finance in July, 2000. A total of \$25,965,700 FED was provided in the 1999-01 biennium; base year funding is \$14,520,900 FED. The program is administered by the Department of Workforce Development (DWD) and provides federal child care monies from the child care and development fund (CCDF) to local governments and tribal governing bodies for programs that improve the quality of child care. As currently administered, funds cannot be used for direct child care services unless the funds are used for children in need of protective services. These funds are allocated based on a 59% federal/41% local matching share. There are not currently any statutory provisions for the program.

GOVERNOR

Increase funding by \$2,974,100 FED in 2001-02 and \$2,960,200 FED in 2002-03 for the local pass-through program for a total allocation of \$17,495,000 in 2001-02 and \$17,481,100 in 2002-03. The bill would create statutory provisions requiring DWD to award grants under the program to local governments and tribal governing bodies to fund programs to improve the quality of child care. DWD would also be required to promulgate rules to administer the grant program, including eligibility criteria and procedures for awarding the grants. Although not specified in the bill, the administration indicates that the local agencies would have to provide the required match.

DISCUSSION POINTS

Technical Modifications

1. Since the release of the budget, the administration has requested that the amount of the allocation for the local pass-through program be corrected to reflect funding of \$17,267,100 in 2001-02 and \$17,253,200 in 2002-03. This correction represents a decrease from the bill of \$227,900 annually. These corrections have been included in Paper #1041, which contains other reestimates and corrections for the TANF program. The revised amounts for the program are used throughout the remainder of this paper.

2. The Committee may want to consider amending the proposed statutory language for the local pass-through program to clarify that local governmental agencies would be required to provide the matching funds required to receive the federal child care funds, since this provision was not included in the bill.

Background

3. For 2000-01, there have been two grant cycles for the local pass-through program. The first grant cycle occurred in fall 2000 and allocated \$11.4 million for a contract term of October 1, 2000, through September 30, 2001. A request for proposals was released in March, 2001, to allocate \$14.5 million for the second grant cycle. The contract term for the second cycle is anticipated to be from July 1, 2001, through September 30, 2002. Due to this timeline, approximately \$2.7 million from the first grant cycle and the entire \$14.5 million from the second grant cycle will not be spent in the current (1999-01) biennium. Funds are allocated based on the number of births to residents and the proportion of children in poverty in each county.

4. For local pass-through funds allocated in the current biennium, funds can be used for activities that increase the supply, quality or accessibility of regulated child care services, activities to help parents make informed choices on child care and activities that educate the public on child care. Examples of programs include: (a) maintaining a pool of substitute providers; (b) reducing turnover of child care providers by maintaining access to health insurance or providing bonuses or stipends to staff; (c) providing technical assistance or training to improve the skills of child care providers; (d) providing start-up grants to meet gaps in services; (e) technical assistance to providers that care for special-needs children; (f) purchase of equipment for special needs children; (g) providing public information on choosing child care; (h) setting up a service that will care for mildly sick children; and (i) local collaborative planning for child care to improve service delivery of early care and education services to children and their families. Funds cannot be used for direct purchase or payment of child care services, unless the child is receiving or is in need of protective services. DWD estimates that approximately 95% of the funds for the local pass-through program are used for quality improvement initiatives.

5. The bill would provide approximately \$17.3 million annually in the 2001-03 biennium for the child care pass-through program. As originally portrayed by the administration, these funds were intended to equal the amount of federal matching funds anticipated to be received

in the next biennium for which no state matching funds were available. Under this interpretation, having the local pass-through program would allow the entire amount of federal matching funds available in the 2001-03 biennium to be utilized.

6. However, the administration now indicates that the \$17.3 million allocated in 2001-02 is intended to be used for the \$14.5 million anticipated to be allocated through DWD's current RFP as well as contractual obligations from the first round of grants of approximately \$2.7 million through September, 2001. In 2002-03, DWD would have \$17.3 million for new grants. Under this interpretation, the state would not be drawing down all available federal matching funds in 2001-02. In addition, due to an anticipated change in the federal matching rate for FFY 2003, the state will not have enough matching expenditures to draw down the federal funds recognized in the Governor's budget bill in 2002-03. This results in \$81,100 in untapped federal funds in 2002-03. The state could receive \$17.3 million in 2001-02 and \$81,100 in 2002-03, if it allocates a GPR match (or other state funds) of approximately \$12.3 million in 2001-02 and \$57,600 in 2002-03.

7. There are also matching funds still available from the FFY 2001 grant award that have not been accessed by the state totaling \$2.0 million. A match of approximately \$1.4 million would be necessary to access these funds. The state must obligate these funds by September 30, 2001, or they will be reallocated to other states. Adding these federal funds to the unaccessed federal funds identified in the point above, brings the total untapped federal funds in 2001-02 to \$19.4 million. The state could access all \$19.4 million if it allocates a GPR match (or other state funds) of \$13.7 million for total funding of \$33.1 million.

Funding Modifications

8. Under the Governor's budget bill, the child care subsidy program is facing an estimated shortfall of \$32.0 million in 2001-02 and \$63.1 million in 2002-03. Based on the assumption that not all federal matching funds would be accessed under the Governor's proposal, an alternative would be to access the untapped federal matching funds of \$19.4 million in 2001-02 and \$81,100 in 2002-03 by appropriating \$13.6 million GPR in 2001-02 and \$57,600 in 2002-03 for child care subsidies. This option would provide an additional \$33.1 million for child care subsidies over the biennium and would not have any impact on the local pass-through program.

9. A second option would be to not provide funding for new local pass-through grants of \$17.3 million in 2002-03. These funds could be accessed for child care subsidies by appropriating \$12.2 million GPR in 2002-03. This option could be combined with the first option in order to provide \$19.4 million FED and \$13.6 million GPR in 2001-02 and \$17.3 million FED and \$12.3 million GPR in 2002-03 for child care subsidies. While this option would provide \$62.6 million for child care subsidies over the biennium, it would eliminate all \$17.3 million proposed for the local pass-through program in 2002-03.

10. An option to obtain a larger amount of funding for child care subsidies would be to do the following: (a) not enter into contracts in 2001-02 for the \$14.5 million being solicited through the current RFP and instead provide approximately \$10.0 million GPR to access these federal funds for child care subsidies; (b) utilize the untapped federal grant funds of \$19.4 million in

2001-02 and \$81,100 in 2002-03; and (c) not provide funding for new local pass-through grants of \$17.3 million in 2002-03. This option would provide federal funds totaling \$33.9 million in 2001-02 and \$17.3 million in 2002-03. The amount of GPR match needed would total \$23.6 million in 2001-02 and \$12.3 million in 2002-03. This option would provide \$87.1 million for child care subsidies over the biennium and would end the current local pass-through program at the close of the initial contract period (September 30, 2001).

11. An option to provide sufficient funding for the entire \$95.1 million estimated child care shortfall would be to combine the above option with additional GPR of \$8.0 million in 2002-03.

12. Other alternatives could be constructed that would reduce only a portion of the local pass-through program in order to provide funding for child care subsidies. As with the alternatives discussed above, GPR would have to be appropriated to satisfy the federal matching requirement.

Program Modifications

13. If the Committee chooses not to allocate GPR but would like to require that the funding for new local pass-through grants of \$17.3 million in 2002-03 be used for direct child care services, it could modify the proposed statutory language to state that the funds must be used for the provision of child care services for families eligible for the Wisconsin Shares child care subsidy program and not for child care quality improvement. Under this option, local agencies would receive funds to pay for the cost of child care for participants eligible for the Wisconsin Shares child care subsidy program. Since the care of these participants would be paid for by the local pass-through grant, the child care providers would not be eligible to receive reimbursement for this care through the Wisconsin Shares child care subsidy program. In order to make this program similar to the Wisconsin Shares program, families would be required to pay the same copayment they would under the Wisconsin Shares program. Administratively, parents would continue to go to W-2 agencies and counties to determine eligibility for the Wisconsin Shares program and their copayment amount. If parents choose to receive care at an agency participating in the local pass-through program, then the child care provider would not be reimbursed by Wisconsin Shares but the family would be required to pay the applicable copayment to the provider.

14. Converting the local pass-through program to a direct services program could help reduce some of the demand faced by the Wisconsin Shares program. However, it is important to note that the provision of direct child care subsidizes has traditionally been a state responsibility. Therefore, local governmental agencies may not be as interested in providing direct child care services as in providing quality improvement services, and may not utilize all federal funds available. If all of the federal funds are accessed by local governments, the number of children served by the federal funds would be approximately 3,000 per month in 2002-03.

15. According to the administration, the local pass-through program was designed to focus on quality improvement instead of direct services to avoid duplication of effort. However, because the child care subsidy program has a projected shortfall, duplication of effort may not be as much of a concern as when the local pass-through program was first created in 1999-00.

16. Alternatively, the Committee could deny the increase proposed by the Governor for the local pass-through program. This would result in the state not accessing \$2.7 million in federal funds annually. In addition, there would be untapped federal funds available totaling \$19.4 million in 2001-02 and \$81,100 in 2002-03. These federal monies could be viewed as a reserve that could be accessed if the Legislature subsequently decides to provide increased state funding for child care.

Summary of Alternatives

17. Several alternatives are presented in the following section:

- Alternative 1 would approve the Governor's recommendation.
- Alternative 2 would make a technical modification to clarify that local governmental agencies would be responsible for providing the matching funds required to receive federal funds.
- Alternatives 3 through 7 would provide additional funds for child care subsidies. Alternative 3 would not reduce the local pass-through program, but would appropriate additional GPR to match untapped federal dollars in 2001-02. Alternative 4 would combine Alternative 3 with an option to eliminate funding for the local pass-through program in the second year of the biennium and appropriate GPR for the match. Alternative 5 would provide the maximum amount for child care subsidies by eliminating the local pass-through program in both years of the biennium and drawing down the untapped federal dollars in 2001-02. Alternative 6 would combine alternative 5 with sufficient GPR to address the entire \$95.1 million child care shortfall. Alternative 7 would allow the Committee to adopt some other combination of reduced funding for the local pass-through program and increased GPR.
- Alternative 8 would modify the local pass-through program to require funds to be used for direct child care services in lieu of child care quality programs.
- Alternative 9 would maintain current law.

ALTERNATIVES TO BILL

1. Increase funding for the local pass-through child care program by \$2,746,200 FED in 2001-02 and \$2,732,300 FED in 2002-03 as recommended by the Governor (with the correction requested by the administration). Adopt the statutory provisions regarding the program recommended by the Governor.

Technical Modification

2. Modify the Governor's proposal to specify in the statutes that local governmental agencies would be required to provide the matching funds required to receive federal child care and development funds through the local pass-through program.

Funding Modifications

3. Increase funds for child care subsidies by \$19,356,200 FED and \$13,649,600 GPR in 2001-02 and by \$81,100 FED and \$57,600 in 2002-03 for a total of \$33,144,500 over the biennium. This option would draw down untapped federal funds and would not impact the local pass-through program.

<u>Alternative 3</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
2001-03 FUNDING (Change to Bill)	\$13,707,200	\$19,437,300	\$33,144,500

4. Provide increased funds for child care subsidies totaling \$62,647,200 over the biennium by making the following modifications: (a) increase funds for child care subsidies in 2001-02 by \$19,356,200 FED and \$13,649,600 GPR; (b) decrease funds for the local pass-through child care program by \$17,253,200 FED in 2002-03; and (c) increase funds for child care subsidies in 2002-03 by \$17,334,300 FED and \$12,307,100 GPR. This option would draw down untapped federal funds in 2001-02 and 2002-03 and would eliminate the local pass-through program in 2002-03.

<u>Alternative 4</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
2001-03 FUNDING (Change to Bill)	\$25,956,700	\$19,437,300	\$45,394,000

5. Provide increased funds for child care subsidies totaling \$87,138,500 over the biennium by making the following modifications: (a) decrease funds for the local pass-through program by \$14,520,900 FED in 2001-02; (b) increase funds for child care subsidies in 2001-02 by \$33,877,100 FED and \$23,620,000 GPR; (c) decrease funds for the local pass-through child care program by \$17,253,200 FED in 2002-03; and (d) increase funds for child care subsidies in 2002-03 by \$17,334,300 FED and \$12,307,100 GPR. Delete the statutory provisions recommended by the Governor. This option would require DWD to not enter into contracts for its current RFP for the local pass-through program, would draw down untapped federal funds in 2001-02 and 2002-03 and would eliminate the local pass-through program in 2002-03.

<u>Alternative 5</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
2001-03 FUNDING (Change to Bill)	\$35,927,100	\$19,437,300	\$55,364,400

6. Provide increased funding for child care subsidies totaling \$95,100,000 over the biennium by adopting alternative 5 and providing \$7,961,500 in additional GPR. This option would require DWD to not enter into contracts for its current RFP for the local pass-through program, would draw down untapped federal funds in 2001-02 and 2002-03, would eliminate the local pass-through program in 2002-03 and would provide sufficient additional GPR to meet the estimated \$95.1 million child care shortfall.

Alternative 6	GPR	FED	TOTAL
2001-03 FUNDING (Change to Bill)	\$43,888,600	\$19,437,300	\$63,325,900

7. Adopt some other combination of reduced funding for the local pass-through program and increased GPR and federal funds for direct child care subsidies.

Program Modifications

8. Modify the Governor’s proposal to require funds allocated through the local pass-through program to be used for the provision of child care services for families eligible for the child care subsidy and not for child care quality improvement. Require DWD to develop a plan to administer this program. Local agencies would receive funds to pay for the cost of child care for participants eligible for the Wisconsin Shares child care subsidy program but child care providers would not be eligible to receive reimbursement for this care through the Wisconsin Shares child care subsidy program. Parents would be responsible for the copayment required under the Wisconsin Shares program. Because participation in this program is uncertain, it is not possible to estimate the impact on the child care subsidy program shortfall.

Maintain Current Law

9. Deny the proposed funding increase for the local pass-through child care program and do not create statutory provisions requiring DWD to award grants under the program to local governments and tribal governing bodies to fund programs to improve the quality of child care. This would result in the state not accessing \$2,746,200 FED in 2001-02 and \$2,732,300 FED in 2002-03. In addition, there would be untapped federal funds available of \$19,356,200 in 2001-02 and \$81,100 in 2002-03.

Alternative 9	FED
2001-03 FUNDING (Change to Bill)	- \$5,478,500

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