



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #848

Temporary Assistance for Needy Families

Transitional Subsidized Private Sector Jobs (DWD -- Economic Support and Child Care)

[LFB 2003-05 Budget Summary: Page 491, #4]

CURRENT LAW

Wisconsin Works (W-2) agencies assign W-2 participants to either unsubsidized employment or one of three types of subsidized employment. Placement in unsubsidized employment takes precedence over placement in subsidized employment. If a W-2 agency determines that placement in an unsubsidized job is inappropriate, the individual is placed in a subsidized employment position. Types of subsidized employment, which are described below, include the following, in order of priority of placement: trial jobs, community service jobs (CSJs), and transitional placements. All subsidized employment benefits are paid by W-2 agencies.

Trial jobs provide work experience and training to assist W-2 participants to move into unsubsidized employment. Under a trial job placement, the employer is required to pay the W-2 participant at least minimum wage, provide worker's compensation coverage, and make good faith efforts to retain the participant as a permanent, unsubsidized employee after the wage subsidy is terminated. The W-2 agency pays a wage subsidy to the employer, not exceeding \$300 per month for full-time employment. Subsidies are prorated to reflect the actual hours worked if hours are missed or if employment is less than full-time. There is no maximum number of work hours. Trial jobs may include education and training activities prescribed by the employer as an integral part of the work performed in the placement. The hours spent in these education and training activities are included in determining the number of hours of work. Participation is limited to three months, which may be extended on a case-by-case basis for up to 24 months.

Community service jobs provide work experience and training to assist participants to move into unsubsidized employment or trial jobs. CSJs are limited to projects that DWD determines serve a useful public purpose, or to projects for which the cost is partially, or wholly, offset by revenue generated by such projects. Participants may be required to work up to 30 hours per week. CSJs may include education and training activities assigned as part of an employability plan. Generally, education and training activities are limited to 10 hours per week, for a total of up to 40 hours per week for both work and education and training activities. CSJ participants receive a \$673 monthly grant paid by the W-2 agency. The grant is reduced by \$5.15 for every hour of work, education, or training missed without good cause. Benefits are prorated for individuals who work less than 20 hours per week. Generally, participation in a CSJ is limited to six months. Participants may participate in more than one CSJ, but generally may not exceed 24 months in combined CSJ participation, which may be extended on a case-by-case basis.

W-2 transitional placements are for individuals who have additional barriers to employment, and who are determined to meet one or more of the following eligibility requirements: (a) on the basis of an independent assessment by the Division of Vocational Rehabilitation in the Department of Workforce Development (DWD) or a similar agency or business, it is determined that the individual has been, or will be, incapacitated for at least 60 days; (b) the individual is needed at home because of illness or incapacity of another member of the W-2 group; or (c) the individual is incapable of performing a trial job or a CSJ. Persons assigned to transitional placements are assigned work activities, such as a community rehabilitation program, a job similar to a CSJ, or a volunteer activity. Placements may also include the same education and training activities as allowed for a CSJ. In addition, a participant may be required to participate in certain types of counseling, therapy, or other activities that the W-2 agency believes are consistent with the individual's capabilities. Generally, transitional placements may be required to engage in work activities (including counseling or other activities) for up to 28 hours per week, and to participate in education and training for up to 12 hours per week, for a total of up to 40 hours per week. Transitional placement participants receive a monthly grant of \$628 paid by the W-2 agencies. As with CSJs, benefits are reduced by \$5.15 for each hour of required activity missed, without good cause, and prorated if the individual participates less than full-time. Generally, participation in a transitional placement is limited to 24 months, which need not be consecutive, and may be extended on a case-by-case basis.

Persons in CSJs and W-2 transitional placements may be allowed to allocate more than the maximum hours per week for education in order to participate in a technical college program under the following circumstances: (a) the W-2 agency, in consultation with the community steering committee required under W-2, and the technical college district board, determines that the technical college education program is likely to lead to employment; (b) the participant maintains full-time status in the technical college education program and regularly attends all classes; (c) the participant maintains a grade point average of at least 2.0, or the equivalent; and (d) the participant is employed or engages in a CSJ or transitional placement for at least 25 hours per week.

While participation in each type of employment position is limited to a maximum of 24 months, which need not be consecutive, DWD or a W-2 agency may grant an extension to the 24-month limit on a case-by-case basis. The total length of time an individual who is 18 years of age or older, or any adult in the individual's W-2 group, may participate in W-2 employment positions is limited to 60 months, which need not be consecutive. The 60-month limit may be extended only if the W-2 agency determines, in accordance with DWD rules, that unusual circumstances exist that warrant an extension.

GOVERNOR

Create a new work category under W-2 referred to as transitional subsidized private sector jobs, and make the following changes to the W-2 program.

Selection of Employers. Require DWD to establish, by rule, eligibility criteria that employers must meet in order to employ a participant in a transitional subsidized private sector job and receive reimbursement of costs for the participant. Require DWD to request proposals from employers for employing participants in transitional subsidized private sector jobs, and to select, and enter into contracts with, employers that meet the eligibility criteria and demonstrate the ability to do all of the following: (a) create useful transitional subsidized private sector jobs; (b) provide effective supervision for participants; (c) manage payroll, taxes, and other financial matters in a responsible manner; (d) coordinate closely and cooperatively with a W-2 agency in moving participants employed by the employer into stable unsubsidized employment as quickly as possible; and (e) comply in all respects with the W-2 program.

Administration. Require W-2 agencies to administer a transitional subsidized private sector job program as part of their administration of the W-2 program to improve the employability of individuals who are not otherwise able to obtain unsubsidized employment, as determined by the W-2 agency. If a W-2 agency determines that placement in an unsubsidized job is inappropriate, placement in a trial job is inappropriate or unavailable, and that placement in a community service job would be appropriate, the participant would have to be allowed to choose between placement in a transitional subsidized private sector job, to the extent available, or a CSJ. Placement in a transitional subsidized private sector job would take priority over placement in a W-2 transitional placement, as does placement in a CSJ under current law.

If a participant chooses placement in a transitional subsidized private sector job, the W-2 agency would have to arrange for such a position, if available, to be offered at a reasonably accessible location with one or more employers selected by DWD. Job offers would be limited by the number of employers selected by DWD, and the number and types of employment positions available with each employer, as provided in the employer's contract with DWD.

Require the W-2 agency contracts to include requirements for W-2 agencies to provide every participant in a transitional subsidized private sector job information about, and assistance in obtaining, any work supports for which the participant is eligible, such as child care, health

insurance, and income tax credits and refunds. In addition, modify the W-2 agency contracts in terms of duties of the community steering committees to require the committees to do the following for persons who are eligible for transitional subsidized private sector jobs: (a) create and encourage others to create on-the-job training sites; (b) foster and guide entrepreneurial efforts of participants; and (c) provide mentors, both from the steering committee's membership and from recruitment of members of the community, to provide job-related guidance, including assistance in resolving job-related issues and the provision of job leads or references. Under current law, the steering committees are required to perform these duties for persons who are eligible for trial jobs and CSJs.

Employer Reimbursement. Require DWD to reimburse an employer that employs a participant in a transitional subsidized private sector job for up to 100% of the employer's costs that are attributable to employment of the participant, as determined by DWD, including any of the following: (a) wages; (b) federal social security taxes; (c) state and federal unemployment contributions or taxes, if any; (d) worker's compensation insurance premiums, if any; (e) liability insurance premiums, if any; and (f) supervisory costs and other overhead as specified in the employer's contract with DWD.

As noted above, currently, all benefits to W-2 participants are paid through the contracts with the W-2 agencies. Under the bill, the reimbursement of wages to employers would be paid by DWD. However, additional funding is not provided, nor is an amount specified, for benefits to reflect the creation of transitional subsidized private sector jobs. Therefore, DWD would have to determine the amount of funding to retain from the allocations for W-2 benefits, wages, and stipends to pay the employer reimbursements.

Job Description. Require, to the extent possible, each transitional subsidized private sector job to be designed by the employer, in consultation with the W-2 agency and DWD, to meet the needs and fit the abilities of the participant to whom the job is offered. Each job would be required to involve the performance of useful work. Employers offering this type of job and DWD would both be required to consult with labor unions representing public sector employees on the design of the jobs to ensure compliance with current nondisplacement provisions required of other W-2 employment positions.

DWD could design transitional subsidized private sector jobs that do either of the following: (a) allow a participant to work in supported employment, if the W-2 agency determines that the participant is highly unlikely to obtain or retain unsubsidized employment at the minimum wage; or (b) allow a participant to care for a severely disabled child or other relative of the participant, if the W-2 agency determines that it would be cost-effective for taxpayers.

Required Hours. Require each transitional subsidized private sector job to provide at least 25 hours, but no more than 30 hours, of work per week to allow the participant to continue to search for unsubsidized employment, unless a different number of hours is recommended by the W-2 agency, on a case-by-case basis, in accordance with guidelines established by DWD.

Wages. Provide that participants in transitional subsidized private sector jobs would receive the prevailing minimum wage for hours actually worked, paid by the employer. The general definition of wages as provided under Chapter 109 of the statutes (Wages, Claims, and Collections) would apply.

Education or Training Substitution. If a participant has been employed in a transitional subsidized private sector job for at least two weeks, and has performed satisfactorily (as determined by the employer), the participant and the W-2 agency, in consultation with the employer, could enter into an agreement under which all of the following occur: (a) the participant enrolls in an education or training program that the participant and the W-2 agency agree has a high probability of enabling the participant to acquire skills leading to unsubsidized employment; (b) the participant's required work hours are reduced to between 15 to 20 hours per week; and (c) the W-2 agency pays the participant a stipend equal to 90% of the wages that the participant would have earned in the transitional subsidized private sector job if his or her hours had not been reduced. Provide that the stipend could not be paid for more than three months, unless the W-2 agency recommends a longer period in accordance with guidelines established by DWD. In no case could a stipend be paid after a participant's employment terminates. The stipends would be exempt from taxes, and from execution, garnishment, attachment, and every other process and would be inalienable, as is currently the case for W-2 grant payments, child care subsidies, and certain other social service payments.

W-2 Financial Eligibility. Provide that for purposes of determining financial eligibility for W-2 benefits or child care subsidies, any wages or stipends received under a transitional subsidized private sector job would be excluded in calculating an individual's gross income level, as are payments to W-2 participants in subsidized employment and caretakers of newborn infants, under current law.

Time Limits. Limit participation in any one transitional subsidized private sector job to a maximum of six months, unless an extension is granted by a W-2 agency. Allow a participant to be employed in more than one transitional subsidized private sector job. At the conclusion of each assignment, the W-2 agency would be required to reassess the individual's employability. Employment in transitional subsidized private sector jobs could not exceed 24 months, which need not be consecutive. DWD or a W-2 agency, with approval of DWD, could grant an extension of the 24-month limit on a case-by-case basis if: (a) the participant is employed in supported employment, or caring for a severely disabled child or other relative; or (b) the W-2 agency, with approval of DWD, has determined that the participant has made all appropriate job search efforts and has been unable to find unsubsidized employment, because local labor market conditions preclude a reasonable job opportunity for that participant. The statutory 60-month time limit that currently applies to participation in a W-2 employment position and receipt of benefits funded under the TANF block grant would also apply to participants in a transitional subsidized private sector job. As under current law, participation and or benefits could not be extended unless a W-2 agency determines, in accordance with DWD rules, that unusual circumstances exist that warrant an extension of the participation period.

Unsubsidized Employment Search. Require every participant in a transitional subsidized private sector job to search for unsubsidized employment throughout his or her participation, including any time during which the participant is pursuing required education or training, unless a W-2 agency grants an exception to the requirement because: (a) the participant is employed in supported employment, or caring for a severely disabled child or other relative; or (b) the W-2 agency determines, in accordance with guidelines established by DWD, that the participant has made all appropriate job search efforts, but is unable to find an unsubsidized job because local labor markets preclude a reasonable job opportunity for that participant. If a W-2 agency determines that a participant is not making satisfactory or good faith efforts to seek unsubsidized employment, after having been given appropriate notices, as defined by DWD, the person would have to be terminated from the transitional subsidized private sector position. A participant who believes that he or she has been wrongfully terminated could appeal to DWD.

Employer-Employee Relationship. Provide that a participant who accepts a transitional subsidized private sector job would be an employee of the employer for all purposes and in all respects, unless otherwise provided. The participant would have to: (a) be supervised in the same manner as the employer's other employees; (b) be covered under the employer's workers compensation coverage; and (c) receive his or her paycheck in the same manner as other employees, with appropriate payroll deductions. DWD could also require an employer to provide a sick leave benefit to the participant.

An employer could terminate employment of a participant in a transitional subsidized private sector job, in accordance with guidelines established by DWD, for misconduct, failure to perform work satisfactorily, or repeated unexcused absences from work. A participant could appeal the termination to DWD if he or she believes that they have been wrongfully terminated.

Overpayments. Require DWD to specify a process, by rule, for recovering overpayments of wages and stipends, including overpayments caused by an intentional violation of W-2 statutes or rules. Specify that the rules would have to permit an employer to recover wage overpayments for the individual to whom the wage was paid, and require DWD to recover any overpayment of reimbursement paid to the employer.

Drug Testing. Require a participant in a transitional subsidized private sector job, who, after August 22, 1996, was convicted in any state or federal court of a felony that has as an element possession, use, or distribution of a controlled substance to submit to a test for use of controlled substances, as a condition of continued eligibility, as currently is required for participation in a CSJ or a transitional placement. Provide that if the test results are positive, the W-2 agency would be required to decrease the number of hours that the participant may work in the transitional subsidized private sector job by up to 15%, for not fewer than 12 months, or for the remainder of the participant's employment, whichever is less. In addition, a W-2 agency could require an individual who tests positive for use of a controlled substance to participate in a drug abuse evaluation, assessment, and treatment program as a condition of employment in a transitional subsidized private sector job.

Food Stamp Benefits. Provide that the amount of food stamp benefits paid to a participant in a transitional subsidized private sector job would be calculated based on the participant's gross wages and stipends, if any, as reduced by any penalty for testing positive for use of a controlled substance, if relevant.

Child Care Subsidy Eligibility. Modify provisions regarding eligibility for child care subsidies to include search for unsubsidized employment, work activities, and education and training activities under a transitional subsidized private sector employment position.

Other Statutory Changes. Generally treat employment in a transitional subsidized private sector job, and wages and stipends received in those positions, the same as employment in other W-2 employment positions and benefits received in those positions, for the purposes of the petition for review process, Learnfare eligibility, recovery of W-2 benefits, W-2 agency reporting requirements, establishment of child and spousal support, and eligibility for reimbursement of funeral and burial expenses. In addition, update cross-references to reflect renumbering and other changes to general references to W-2 employment positions and benefits to reflect the creation of transitional subsidized private sector employment positions.

Effective Date. These provisions would take effect on January 1, 2004.

EITC and Homestead. Although the federal Internal Revenue Service (IRS) would make the ultimate determination, based on information regarding similar programs in other states and a 1999 notice issued by the IRS, it appears that participants in transitional subsidized private sector jobs would qualify for the federal earned income tax credit (EITC). If that is the case, participants would also qualify for the state EITC. Participants would also qualify for the state homestead tax credit, regardless of whether they qualify for the EITC. However, the bill does not include additional funding for the state EITC or the homestead tax credit relating to this provision. Under current law, participants in CSJs and transitional placements under W-2 do not qualify for the EITC because they receive monthly grants rather than wages. Under the current homestead credit provisions, property taxes or rent used in calculating the credit must be reduced by one-twelfth for each month in which an individual participates in a W-2 CSJ or transitional placement. This provision would not apply to participants in transitional subsidized private sector jobs under the bill.

DISCUSSION POINTS

1. According to the Governor's "Budget in Brief" document, creating a wage-paying, subsidized private sector transitional jobs option as another employment tool in the W-2 program is intended to be an additional way to reach the overall goal of W-2 to help low-income adults secure unsubsidized employment in the private sector and increase their earnings.

2. A wage-paying community service job pilot was created under 1997 Wisconsin Act 27 (the 1997-99 biennial budget) for two W-2 agencies in Milwaukee County that were to be selected by DWD. The program was to begin on October 1, 1998, and sunset on September 30,

2001. Due to technology changes needed in the DWD computer system, implementation of the wage-paying community service job pilot was delayed. The Governor had proposed expanding the program statewide beginning January 1, 2001, and eliminating the sunset in his 1999-01 budget recommendations. However, the pilot program and the Governor's proposal were eliminated by the Joint Committee on Finance. As a result, the program was not implemented before it was repealed.

3. In Wisconsin, there is currently a W-2 employment placement referred to as a W-2 transitional placement. However, as indicated above, the W-2 transitional placement is intended for participants who have more extensive barriers to employment than other TANF participants. A W-2 transitional participant receives a TANF-funded, monthly grant to participate in work activities and may be required to participate in certain types of counseling, therapy, or other activities. To avoid confusion, throughout the rest of this paper the new transitional subsidized private sector job program proposed by the Governor will be referred to as the subsidized transitional job program.

4. As of March, 2003, there were about 20 subsidized transitional jobs programs across the country. Most of the programs are locally-based, serving a city or county. Currently, the largest program is in the State of Washington, which serves an estimated 1,500 participants throughout the state at any time.

5. While existing programs may vary, the main premise of subsidized transitional job programs is that the jobs are real jobs in which participants earn an hourly wage from their employer. Because participants earn a wage instead of a grant, as is the case under other welfare-type programs, they are eligible to receive the federal earned income tax credit

6. Subsidized transitional jobs programs also tend to have the following characteristics: (a) provide a realistic experience of looking for and holding a job; (b) participants are closely monitored to ensure they have real responsibilities, receive training, and make real contributions to their employers; (c) are limited in time so that participants have enough time to gain marketable experience and skills, without losing incentive to find permanent employment; and (d) work is often concentrated in non-profit organizations, because the organizations are willing to provide supervision and training to participants in exchange for employees that they would not otherwise be able to afford.

7. Proponents of subsidized transitional jobs indicate that participation in a real employment experience, in addition to drawing additional income through the earned income tax credit tax credit, allows participants to: (a) make stronger connections to the workforce; (b) earn higher wages upon program completion; and (c) have psychological benefits from being treated like any other worker, as opposed to a welfare recipient.

8. The current trial job placement under the W-2 program is similar to a subsidized transitional job in that it is intended to give participants real work experience in the private sector. Under the trial jobs placement, W-2 agencies pay a wage subsidy to the employer of \$300 per month for full-time employment. The employer is required to pay the individual at least the federal minimum wage, and make a good faith effort to retain the participant as a permanent, unsubsidized

employee after the wage subsidy is terminated.

9. As of March, 2003, there were only 11 participants in trial jobs. According to DWD, employers have not been interested in trial jobs, because: (a) employers find the paperwork involved extensive; (b) the \$300 monthly wage subsidy does not cover costs of hiring W-2 participants and does not compensate for the extra time employers might have to spend with W-2 participants, because of additional problems they may bring to the workplace; (c) the wage subsidy is reduced for each hour not worked by the participant; and (d) employers may not be interested in hiring permanent workers when the wage subsidy has ended.

10. Proponents of the subsidized transitional jobs program indicate that, because employers would be reimbursed for up to their full costs of employing the W-2 participant, more employers would be interested in the program. Further, the new program would not require employers to make a commitment to attempt to hire the individual on a permanent basis once the placement has ended.

11. Some argue that the trial jobs program was created under the W-2 program as the step in the W-2 ladder to provide individuals with private sector employment experience to help them obtain unsubsidized employment. However, because the trial job program has been unsuccessful, the program has failed to provide W-2 participants the bridge to unsubsidized employment that was intended. Proponents of the proposed program indicate that subsidized transitional jobs could fill the gap of the trial job placement in the W-2 program.

12. The bill provides a statutory framework for administering a subsidized transitional jobs program; however, it lacks information on program implementation. DWD has appointed a taskforce to develop ways to implement the program. The taskforce is charged with: (a) reviewing and analyzing existing research on transitional jobs; (b) researching data and programs in other states; (c) identifying the best implementation strategies to ensure that the program meets certain goals, such as providing real world of work opportunities for W-2 participants, preserving W-2 participant incentives for moving into unsubsidized employment, and encouraging employers to provide transitional job work sites; (d) addressing issues such as likely participants to target for the program, the role of job centers, maximum funding sources, standards for employer participation, and the merits of targeting specific sectors of the labor market and labor shortages in Wisconsin; (e) identifying the best delivery models for implementing transitional jobs; and (f) identifying best practices for implementing support services for transitional job participants, including work site mentoring, education and training, and transportation. Recommendations of the taskforce are due to the Secretary of DWD by August 1, 2003.

13. As indicated above, the bill includes no assumptions as to the number of employers that DWD would enter into contracts with to employ persons in the subsidized transitional job program, or the number of W-2 participants who would choose placement in a subsidized transitional job.

14. Because details from the taskforce recommendations on implementation of the

program are not available, it is difficult to project the type and number of employers who would employ persons in subsidized transitional jobs and the number of W-2 participants who would participate. However, the Secretary of DWD indicated in her comments to the Joint Committee on Finance that it would be reasonable to expect that 25% of the subsidized W-2 employment caseload would participate in 2003-04 and 50% would participate in 2004-05. Under the bill, it is assumed that there will be an average of 8,900 subsidized W-2 employment cases per month during the 2003-05 biennium. Based on these assumptions, a potential of 2,200 participants per month in 2003-04 and 4,500 participants per month in 2004-05 would be placed in subsidized transitional jobs.

15. It should be noted that, under the bill, anyone who is determined eligible for a CSJ placement would be given the option of participating in a CSJ or a subsidized transitional job, to the extent that a subsidized transitional job placement is available. Therefore, under the bill, the population that would be eligible for placement in a subsidized transitional job would be anyone who is determined eligible for a community service job. Over the last year, an average of 5,300 persons per month have participated in a CSJ placement. Based on DWD's projection of the potential number of participants, an estimated 85% of the current CSJ population would be placed in subsidized transitional jobs by 2004-05.

16. Individuals who participate in a subsidized transitional job would experience a significant increase in their disposable incomes, as discussed below. Therefore, it would be realistic to expect that, given the opportunity to choose between a subsidized transitional job and a CSJ, one would choose a subsidized transitional job. Consequently, it is likely that the number of subsidized transitional job participants would be limited by the number of employers who participate in the program and the number of job openings available. While DWD has not provided an estimate of the number or types of employers that may participate in the program, based on participation levels in existing subsidized transitional jobs programs, DWD's participation estimates may be optimistic for the first two years of the program.

17. It may be more realistic to make assumptions based on the eligible population, which, under the bill, would be the CSJ population. Applying DWD's assumed participation rates to the eligible CSJ population, participation in subsidized transitional jobs could total 1,300 in 2003-04 and 2,700 in 2004-05, which would still be larger than existing programs in other states.

18. As noted above, DWD would enter into contracts under which employers would be reimbursed for up to 100% of the employer's costs attributable to employment of the participant, including any of the following: (a) wages; (b) federal social security taxes; (c) state and federal unemployment taxes, if any; (d) worker's compensation premiums, if any; (e) liability insurance premiums, if any; and (f) supervisory costs and other overhead as specified in the employer's contract with DWD. DWD would reimburse employers for these costs from funds that it would withhold from the allocations to W-2 agencies for W-2 benefits and educational stipends.

19. No additional funding is provided, nor is an amount of funding identified, to fund placements in subsidized transitional jobs. DOA officials indicate that the subsidized job proposal

is intended to be cost-neutral, and that DWD would be required to manage the program such that, over the biennium, expenditures would remain within the W-2 allocations under the bill.

20. At this time, DWD is not able to provide an estimate of funds that they would retain from the W-2 agency contract allocations to reimburse employers for employing persons in subsidized transitional jobs, or the types of employer costs they would cover in the contracts. According to DOA officials, they would expect that the amount retained by DWD would be a somewhat fluid amount in that the number of positions available would be limited by the amount of funding held by DWD. However, if demand, either by employers or participants, ended up below expectations, funding could be returned to the W-2 agencies for cash benefits.

21. As noted above, the current maximum payments for persons in paid W-2 placements are: (a) \$673 per month for persons in CSJs; (b) \$628 per month for persons in W-2 transitional placements; and (c) a \$300 per month wage subsidy for persons in trial jobs. Actual benefits paid are typically somewhat less than the maximum level, because some participants work less than full-time and their grant payments are pro-rated. In addition, grant payments may be reduced if the participant fails to comply with program requirements. The budgeted amounts for W-2 benefits, wages, and stipends under the bill assume an average grant of \$510 per participant per month, which would equate to \$6,120 per year.

22. The wage cost for an individual in a subsidized transitional job, working 30 hours per week (the maximum number of hours allowed under the bill) would average \$664.35 per month. Based on the budgeted amount of \$510 per participant per month under the bill, the budgeted amount would cover 76.7% of the employer's wage costs. This does not include reimbursement for any other employer costs, such as taxes, worker's compensation, supervisory expenses, or overhead. [As noted in issue paper #847, the current average monthly benefit level is \$545.80. If the amount of funding budgeted under the bill were adjusted to reflect the current average payment, the funding would cover approximately 82% of employers' wage costs.]

23. However, according to DOA, in any one month costs relating to persons in subsidized transitional jobs may be higher than costs of persons in other placements. Therefore, the employer reimbursements could exceed the \$510 per participant per month budgeted amount. However, DWD would be limited by the overall amount of funds available.

24. Over time, DOA and DWD officials maintain that persons who participate in subsidized transitional jobs would obtain unsubsidized employment more quickly than under the current W-2 program, which would result in a reduction in W-2 expenditures in the long-run. However, accurate information on the amount of time participants currently spend in the W-2 program is not available. In addition, research on existing programs does not provide a comparison of the amount of time spent in the subsidized transitional job program as opposed to other TANF-supported employment programs. Therefore, the potential impact of the subsidized transitional jobs proposal on the amount of time persons spend in W-2 cannot be calculated at this time and must be considered speculative.

25. Some question the appropriateness of allowing DWD to reimburse employers for unemployment insurance, supervision, and other overhead, in addition to wages. Most existing programs reimburse employers for wages, employment taxes, and worker's compensation. It seems that this provides sufficient incentive in other programs to attract employers, particularly non-profit organizations, to participate. Given that funds available for W-2 benefits and wages are limited, the Committee may want to limit the types of employer expenses that could be reimbursed.

26. Under the bill, an individual could participate in the education and training component of the subsidized transitional job after two weeks in the placement. According to DOA officials, the two-week period would allow the individual and the W-2 agency to determine specific types of education or training that the participant may need outside of the employment experience that would allow the individual to obtain a job in the private sector. Therefore, the intent is that the education and training would be tailored toward the needs of that individual, and would assist the individual in obtaining unsubsidized employment.

27. As indicated above, participants would be allowed to reduce their work hours to participate in the education and training activities. Participants would receive 90% of their wages for the number of hours of reduced employment, for up to three months. The wage stipend would be paid by the W-2 agencies out of their allocations for W-2 benefits and stipends.

28. Few existing subsidized transitional jobs programs pay people for participating in education and training (except for on-the-job training). Further, some would argue that taxpayers should not have to pay for the time that W-2 recipients spend in school and training. Therefore, the Committee may want to eliminate the stipend for education and training.

29. If the Committee was to delete the stipend for education and training, it would be difficult to estimate any related cost savings, since participants may decide not to reduce their paid work hours for unpaid education and training activities. Further, if the stipend were eliminated and participants instead decided to maintain their work hours, the program could cost more because a person would only earn 90% of the minimum wage while participating in education and training. Lastly, if the education and training component were to help an individual overcome a barrier to obtaining unsubsidized employment more quickly, it could be argued that such an investment could reduce the costs of the program.

30. It should be noted that some individuals have also expressed concern over the proposed time limits for the subsidized transitional jobs program. Under the bill, participation in the program would be limited to six months, unless an extension is granted by a W-2 agency. A participant would be allowed to participate in more than one subsidized transitional job. At the conclusion of each assignment, the W-2 agency would be required to reassess the individual's employability. Overall participation would be limited to 24 months, which need not be consecutive. However, DWD, or a W-2 agency with the approval of DWD, could extend the 24-month limit on a case-by-case basis under certain circumstances.

31. According to a Washington State official, one of the necessary components of a

successful subsidized transitional job program is that it be a time-limited opportunity so that individuals feel pressure to best utilize it as a bridge to unsubsidized employment. The official expressed some concerns with the proposed language being too lenient in terms of extending the placements. Therefore, the Committee may want to limit participation to a maximum of six months, with an opportunity to extend the placement for another three months, but provide no opportunities for further extensions.

32. It should be noted that the funding mechanism for the subsidized transitional jobs program under the bill, in requiring DWD to reimburse employers for the wages for persons in the subsidized transitional jobs program, may provide an additional incentive for W-2 agencies to place as many people as possible in subsidized transitional jobs, because the wage reimbursements would not come out of the W-2 agencies' benefits allocations. While this may not be undesirable if appropriate placements are made, W-2 regions that may have fewer employers participating in the subsidized transitional job program could view the payment structure as unfair. However, DWD could structure the W-2 contracts and allocations so that any payments to employers would draw against a W-2 agency's overall benefit allocation. This would limit any adverse incentives and make the payment structure more equitable.

33. Some individuals have questioned the language requiring DWD to enter into contracts with employers, as opposed to allowing the W-2 agencies enter into such contracts. This is because the W-2 agencies are viewed as more knowledgeable of regional labor needs, and may already have connections with potential employers. However, there may be some statewide employers that would find it advantageous to have one contract with DWD as opposed to multiple contracts with different W-2 agencies.

34. Most existing subsidized transitional jobs programs do allow the local administering agencies to develop the employer networks for job placements. Therefore, the Committee may want to modify the language to allow W-2 agencies to enter into subsidized transitional job contracts with employers. This would allow local agencies to build upon existing employer networks as well as allowing DWD to contract with potential statewide employers. However, it might add to the administrative difficulty in implementing the program. In addition, it may cause some competition among W-2 agencies for employers that cross over W-2 agency regional boundaries.

35. W-2 agencies would also incur administration and services costs relating to persons in subsidized transitional jobs. Expenditures per W-2 participant are not currently tracked, and as a result, obtaining an accurate monthly expenditure per participant under the current W-2 program is difficult. W-2 services vary widely depending on the type of placement. Persons in CSJ and W-2 transitional placements are likely to receive more extensive education and training services than people in unsubsidized employment who mainly receive case management services.

36. Annual funding for administration and services under the current W-2 agency contracts totals \$98.8 million. Assuming administrative expenditures per participant are constant and using a weighted average per participant for education and training and other W-2 services, the

amount currently budgeted per person would be estimated at approximately \$679 per month.

37. Under the bill, funding for W-2 agency administration and services would total \$77.9 million per year, a 21.1% decrease from the base level. As a result, under the bill, the average monthly amount budgeted for administration and services would total an estimated \$536 per participant.

38. While implementation and service delivery under the subsidized transitional job proposal is something that the DWD taskforce is expected to provide recommendations on, according to DOA and DWD officials, services costs for persons in subsidized transitional jobs would likely be lower than other placements, because people would receive training, particularly soft-skills training, such as work habits and employment socialization skills, on the job, rather than in courses paid for by the W-2 agencies.

39. A recent study of existing subsidized transitional programs indicated that monthly expenditures for outreach, pre-placement activities, training, job development and placement, administration, and other services ranged from \$379 per participant to \$1,871 per participant per month depending on the intensity of services provided under the program. Therefore, depending on the type of services and how they are structured under the subsidized transitional job program, the amount of funding budgeted under the bill for W-2 administration and services could be adequate to support persons in the new employment program.

40. It should be noted that, under federal regulations, work subsidies are not considered assistance, and do not count against the federal 60-month TANF assistance time limit. Therefore, under the subsidized transitional job proposal, the time a person spends in a subsidized employment position would not count against that individual's federal time limit. If an individual in a subsidized transitional placement receives an education and training stipend, the stipend would count as assistance under the federal regulation, and would count toward the federal time limit. While, the time an individual spends in a subsidized transitional job would not count against the federal 60-month limit for individuals receiving TANF assistance, under the bill, it would count toward the state 60-month time limit that currently applies to individuals receiving TANF assistance.

41. As indicated above, under the proposed subsidized transitional jobs program, participants would be paid a wage by the employer for at least 25 hours, but no more than 30 hours, per week. Because participants would earn wages instead of a grant, participants could be eligible for the federal earned income tax credit.

42. While the ultimate determination as to whether the wages under the program would qualify for the EITC would be made by the federal Internal Revenue Service, based on a 1999 notice issued by the IRS and information regarding similar programs in other states, it does appear that subsidized employment program wages would qualify for the EITC. Drawing these funds would not only benefit the individuals, but also local and state economies. Since the program would begin on January 1, 2004, most of the additional federal revenues would not be realized until state fiscal year 2004-05. Based on an average monthly caseload of 2,000 participants in subsidized

transitional jobs for calendar year 2004, the projected amount of additional federal EITC funds that would be brought into the state could potentially total \$5.9 million in 2004-05. Based on ongoing caseload projections of 2,700 subsidized transitional jobs cases per month, federal EITC revenues could total an estimated \$7.9 million annually, beginning in 2005-06.

43. As noted above, under the bill, persons in subsidized transitional jobs could reduce their work hours by 10 to 15 hours per week to participate in education and training, and earn 90% of their wages for the number of reduced hours as a stipend to offset the cost of the time spent in education and training. The stipend would be limited to three months. The stipend would not be considered taxable income under federal tax law and would not be considered in determining eligibility for the federal EITC.

44. Under current law, wages that are considered eligible for the federal EITC are also considered eligible for the state EITC. In addition, participants under the proposed program would also qualify for the state homestead tax credit under current law. Current homestead tax provisions provide that property taxes or rent used in calculating the credit must be reduced by one-twelfth for each month in which an individual participates in a CSJ or a W-2 transitional placement. This provision would not apply to participants under the proposed subsidized transitional jobs program.

45. The table below compares the disposable income for a household with two children (the current average number of children per W-2 assistance group) under: (a) a current CSJ placement; (b) the proposed subsidized transitional jobs placement without the educational stipend; (c) the proposed subsidized transitional jobs placement with the educational stipend; and (d) an unsubsidized job with an average hourly wage of \$8.15 (the average wage for full-time entered employment for W-2 participants for 2002). The estimates assume a monthly rent of \$400 with heat included, and full-time licensed day care for both children. For the purposes of this estimate, the figures below are annualized because it is assumed that on average a steady number of participants would participate in the program throughout the year. However, due to time limits imposed on both the CSJ and subsidized transitional jobs programs, participants would likely participate for less than one year.

Comparison of Disposable Income Under a Community Service Job Placement Under Current Law with the Proposed Subsidized Transitional Job Placement and Unsubsidized Employment

	Current CSJ <u>Placement</u>	Subsidized Transitional Jobs Placement with No Educational <u>Stipend</u>	Subsidized Transitional Jobs Placement with Educational <u>Stipend</u>	Unsubsidized Job (30 hours per week)
Potential Annual Grant	\$8,076	N.A.	N.A.	N.A.
Annual Wages	N.A.	\$8,056	\$7,438	\$12,714
Annual Education Stipend (limited to three months)	N.A.	N.A.	556	N.A.
Payroll Taxes	N.A.	-616	-569	-973
Federal EITC	N.A.	3,222	2,975	4,336
State EITC	N.A.	451	417	607
Homestead Credit	N.A.	960	960	664
Food Stamps	3,358	3,367	3,395	2,485
Child Care Copay	<u>-416</u>	<u>-416</u>	<u>-416</u>	<u>-572</u>
Disposable Income	\$11,018	\$15,024	\$14,756	\$19,261

46. As shown in the table, participants in subsidized transitional jobs could have up to 36.4% more in disposable income than under a current CSJ placement.

47. There have been concerns raised by some that the subsidized transitional job program may be too attractive for W-2 participants, and would eliminate incentives that exist in the current W-2 program to obtain unsubsidized employment. As shown in the table, while there would still be a gap in disposable income of about \$4,200 between an unsubsidized job and a subsidized transitional job, it would be much less than the \$8,200 gap between the disposable income of a CSJ participant and a person in an unsubsidized job. Some would argue that the subsidized transitional job proposal would allow participants to obtain higher-paying unsubsidized jobs than under the current W-2 program; however, information is not available to estimate the impact that a subsidized transitional job placement may have on future earnings.

48. It should be noted that funding estimates for the state EITC and the homestead credit under the bill do not include increased funding to reflect additional persons who would be eligible under the subsidized transitional job placement. Because the program would not begin until January 1, 2004, claims for these credits would not be filed until the spring of 2005 (fiscal year 2004-05). Based on an average participation in subsidized transitional placements of 2,000 per month for calendar year 2004, the estimated increased cost of the credits in 2004-05 would be \$1.1 million for the EITC and \$1.2 million for the homestead tax credit, for a total cost compared to the bill of \$2.3 million. Annually, the projected cost would be \$1.5 million for the EITC and \$1.6

million for the homestead tax credit beginning in 2005-06, based on an average participation level of 2,700 cases per month. [It is possible that a small portion of these additional state costs would be offset by increased sales tax collections on taxable items purchased with federal EITC revenues.]

49. While TANF funding could be used for the additional EITC costs, given the projected deficit for the TANF program under the bill, GPR or some other state funding source may be required. TANF funding cannot be used for the homestead tax credit, and therefore, GPR would be required.

50. The Committee could reduce the cost of the proposed subsidized transitional jobs program to the state by providing that persons in subsidized transitional jobs would not be eligible for the state EITC or homestead tax credit. While this would reduce the disposable income for individuals who participate in the program, their disposable income would still be up to 23.6% higher than under a CSJ placement.

51. However, excluding individuals who participate in the subsidized transitional jobs proposal from the state EITC would require a separate schedule on the state income tax form, and complicate administration of the credit. Excluding such individuals from the homestead tax credit would not be expected to complicate administration of the credit.

52. As noted above, DWD has appointed a taskforce to work out the details of implementation of a subsidized transitional jobs program. The taskforce is to report their recommendations to the Secretary of DWD by August, 2003. Without the recommendations of the taskforce and details on program administration, the proposal could be viewed as premature at this time. Further, given the ramifications of the proposal on W-2 participants, the local agencies that administer the program, and employers in the state, it could be argued that that separate legislation would be more appropriate to allow adequate input from those who could be affected by the program. Therefore, the Committee may want to delete the provision.

ALTERNATIVES

1. Adopt the Governor's proposal to create a new work category under W-2 referred to as transitional subsidized private sector jobs, and make the related changes to the W-2 program beginning on January 1, 2004, and adopt either of the following:

a. Provide \$2,300,000 GPR in 2004-05 to fund the estimated cost of the EITC and homestead tax credit for participants in transitional subsidized private sector jobs, as follows: (a) \$1,100,000 in 2004-05 for the EITC; and (b) \$1,200,000 in 2004-05 for the homestead tax credit.

Alternative 1a	GPR
2003-05 FUNDING (Change to Base)	\$2,300,000

b. Provide that individuals in transitional subsidized private sector jobs would not be

eligible to receive the state EITC and homestead tax credit.

2. In addition to Alternative 1a or 1b, adopt any of the following modifications to the Governor's proposal to create a transitional subsidized private sector jobs program:

a. Limit reimbursement of costs for employers who employ a participant in a transitional subsidized private sector job to up to 100% of the employer's cost of wages, employment taxes, and worker's compensation.

b. Eliminate the education and training stipend that would provide individuals 90% of the wages that the participants would have earned had they not reduced their work hours to participate in education and training.

c. Limit participation in subsidized transitional jobs to a maximum of six months, with a potential for a three-month extension.

d. Allow W-2 agencies to contract with employers for transitional subsidized private sector job placements.

3. Delete provision.

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