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Joint Committee on Finance

Paper #197

Trial Employment Match Program Jobs (Children and Families -- Economic Support and Child Care)

[LFB 2013-15 Budget Summary: Page 108, #3]

CURRENT LAW

Local Wisconsin Works (W-2) agencies assign W-2 participants to either unsubsidized employment (job ready) or one of three types of subsidized employment positions. 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 placement: trial jobs, community service jobs (CSJs), and transitional placements. Monthly benefits for the CSJs and transitional placements are paid by the Department of Children and Families (DCF). Employer wage subsidies for trial jobs are paid by W-2 agencies. In addition, services that provide support to participants in becoming job-ready, in obtaining unsubsidized employment, and in maintaining employment are provided by W-2 agencies.

Trial Jobs. 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 (currently \$7.25 per hour), 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 worked. Participation is limited to three months per trial job and 24 months

for all trial jobs, which may be extended on a case-by-case basis.

Community Service Jobs. 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 DCF determines serve a useful public purpose, or to projects for which the cost is partially, or wholly, offset by revenue generated by such projects. 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. Participants may be required to work up to 40 hours per week, but the total for both work and education and training activities is limited to 40 hours per week. CSJ participants receive a \$653 monthly grant paid by DCF. The grant is reduced by \$5.00 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 is limited to six months per CSJ and may not exceed 24 months in combined CSJ participation, which may be extended on a case-by-case basis.

Transitional Placements. W-2 transitional placements are for individuals who have additional barriers to employment. An individual must 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 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 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 40 hours per week and in education and training for up to 12 hours per week, but cannot exceed 40 hours per week for both. Transitional placement participants receive a monthly grant of \$608 paid by DCF. As with CSJs, benefits are reduced by \$5.00 for each hour of required activity missed without good cause. Generally, participation in a transitional placement is limited to 24 months, but may be extended on a case-by-case basis.

Persons in CSJs and 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, DCF or a W-2 agency may grant an extension to the 24-month time 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 DCF rules, that unusual circumstances exist that warrant an extension.

EITC and Homestead. Under current law, participants in CSJs and transitional placements under W-2 do not qualify for the federal or state earned income tax credit (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. Participants in trial jobs qualify for the federal and state EITC and for the homestead credit under current law.

GOVERNOR

Replace the trial jobs employment position under W-2 with the trial employment match program (TEMP) jobs employment position. Require all provisions under current law for the trial jobs employment position to be retained for the new TEMP jobs, except for three modifications regarding the amount of the wage subsidy, the requirements of a participating employer once the TEMP job ends, and the length of time for the placement.

First, require a W-2 agency to pay a wage subsidy to an employer that employs a TEMP participant in an amount that is negotiated between the W-2 agency and the employer. However, require the amount negotiated to be at least the applicable state or federal minimum wage (currently \$7.25 per hour) for each hour that the participant actually works, up to a maximum of 40 hours per week. In addition to the wage subsidy, authorize the W-2 agency to negotiate reimbursement to the employer for all or a portion of other costs that are attributable to the employment of the TEMP participant, including any of the following: (a) federal social security and Medicare taxes; (b) state and federal unemployment contributions or taxes; and (c) worker's compensation insurance premiums.

Second, require an employer that employs a TEMP participant and receives a negotiated wage subsidy to agree to make a good faith effort to retain the participant as a permanent unsubsidized employee after the wage subsidy ends. Specify that the employer would not be required to actually retain the participant. In addition, require an employer to agree that if the participant is not retained after the wage subsidy ends, the employer will either serve as an employment reference for the participant or provide to the W-2 agency a written performance evaluation of the participant, including recommendations for improvement.

Finally, limit participation to six months for a TEMP job, rather than three months. Retain current law provisions for trial jobs that would limit the time for all TEMP jobs to 24 months, which may be extended on a case-by-case basis.

These provisions would first apply to W-2 participants who are placed in a TEMP job on October 1, 2013, or on the bill's effective date, whichever is later.

DISCUSSION POINTS

1. Although the bill would replace the trial jobs employment position with the TEMP jobs employment position beginning October 1, 2013, or on the bill's general effective date, whichever is later, the administration has subsequently requested that these provisions first apply to W-2 participants who are placed in a TEMP job on January 1, 2014, to correspond with the beginning of the second year of the current W-2 agency contracts, rather than implement the changes during the last three months of the first year of the contracts. The proposal should be modified to replace the trial jobs employment position with the TEMP jobs employment position beginning January 1, 2014.

Transitional Jobs Programs

2. Federal rules regarding the temporary assistance for needy families (TANF) block grant authorize states to pay wages and provide supportive services to recipients in lieu of a cash grant. These subsidized employment programs are generally called transitional job programs. 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. Instead, in Wisconsin, the trial jobs component of W-2 most closely resembles a transitional job program.

3. While programs vary, the main premise of transitional job programs is that the jobs are real jobs in which participants earn an hourly wage from their employer, but are also provided job skills training and supportive services to help with employment barriers in order to succeed in the workforce. 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.

4. Transitional job programs tend to offer a model of employment such that a participant can learn work customs and routines through experience, acquire work skills, and generate employer references for future employment. A transitional job provides the participant with case management services to assist with any problems, learning opportunities, wages, support to transition to full-time unsubsidized employment, and a foundation that provides the participant with skills to lead to job advancement.

5. Proponents of transitional job programs indicate that participation in a real employment experience, in addition to drawing additional income through the earned income tax credit, allows participants to: (a) obtain a work history; (b) increase job skills; (c) earn higher wages upon program completion; and (d) have psychological benefits from being treated like any other worker, as opposed to a welfare recipient. Transitional job programs also benefit employers by lowering the cost of hiring new employees and by increasing business productivity, financial well-being, and customer satisfaction.

Trial Jobs

6. In Wisconsin, the trial jobs placement was created under the W-2 program as a 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 had very low participation, the program has failed to provide W-2 participants the bridge to unsubsidized employment that was intended. The following table shows the monthly trial jobs caseload, the total monthly paid caseload, and the percentage of caseload attributable to trial jobs in calendar year (CY) 2012.

TABLE 1

**Trial Job Caseloads
CY 2012**

<u>Month</u>	<u>Trial Jobs</u>	<u>Total Paid Caseload</u>	<u>Percent Trial Jobs</u>
January	10	15,275	0.07%
February	13	14,662	0.09
March	14	14,418	0.10
April	17	14,041	0.12
May	17	14,152	0.12
June	20	14,094	0.14
July	13	14,043	0.09
August	15	14,169	0.11
September	14	13,830	0.10
October	10	13,949	0.07
November	10	13,636	0.07
December	5	13,542	0.04

7. The most that trial jobs contributed to the overall caseload was 0.14% in June, 2012. In addition, although overall paid caseloads have increased during CY 2013 from 14,027 in January, 2013, to 14,518 in March, 2013, the number of trial jobs placements has not. Trial jobs totaled five in January, four in February, and five in March.

Real Work, Real Pay

8. From July, 2008, through December, 2009, DCF conducted a pilot project that increased the monthly wage subsidy to participating employers from \$300 to a monthly amount that covered most of the participant's wages (maximum of 30 hours per week at minimum wage, federal social security taxes, unemployment insurance contributions, and worker's compensation premiums). In return, employers were required to agree to make a good faith effort to retain the individual as a permanent unsubsidized employee after the wage subsidy ended if the participant successfully completed the program. If the employer did not hire the participant in an unsubsidized employment position, then the employer was required to agree to serve as an employment reference or to provide to the W-2 agency a written performance evaluation of the participant, including

recommendations for improvement. The pilot project was limited to 100 people.

9. The following table shows the monthly trial job caseload, the monthly real work, real pay caseload, the total monthly paid caseload, and the percentage of the total caseload attributable to both of these employment positions from July, 2008, through December, 2009 (the time period in which the real work, real pay pilot project was in effect).

TABLE 2
Trial Jobs and Real Work, Real Pay Caseloads
July, 2008, thru December, 2009

<u>Month</u>	<u>Trial Jobs Caseload</u>	<u>RWRP Caseload</u>	<u>Total Paid Caseload</u>	<u>Percent Trial/RWRP</u>
July, 2008	6	1	6,201	0.11%
August	7	5	6,250	0.19
September	5	9	6,365	0.22
October	4	10	6,555	0.21
November	5	15	6,535	0.31
December	1	12	6,779	0.19
January, 2009	3	8	6,853	0.16
February	3	16	6,949	0.27
March	1	20	7,084	0.30
April	9	14	7,333	0.31
May	7	24	7,438	0.42
June	11	22	7,770	0.42
July	11	15	8,026	0.32
August	8	9	8,179	0.21
September	9	15	8,364	0.29
October	11	18	8,628	0.34
November	9	10	8,970	0.21
December	8	1	9,264	0.10

10. As shown in the above table, more employers participated in subsidized job placements when provided with a subsidy that covered most of the participant's wages. Although the real work, real pay pilot project was limited to 100 slots, participation was often more than twice as much as the trial job program. The most that trial jobs and real work, real pay jobs combined contributed to the overall caseload was 0.42%, approximately three times the amount of trial jobs alone in June, 2012.

11. DCF's evaluation of the real work, real pay pilot project found that wages for participants ranged from an hourly wage of \$6.75 to \$13.46, with an average of \$9.10. Participants worked an average of 34 hours per week. In addition, two quarters after leaving the real work, real pay job, 83 of the 100 participants were working and earned an average of \$6,543 for those two quarters. Finally, in comparing outcomes to other W-2 participants who entered unsubsidized employment, the real work, real pay participants met W-2 job retention and stabilization performance standards at a rate that was 16% higher than for the other W-2 participants served by

the same W-2 agencies.

TEMP Jobs

12. DCF has provided suggested reasons as to why the trial jobs program has not been as successful as hoped. First, the subsidy amount does not cover the costs of hiring and paying a new employee. Second, the three-month placement is not long enough for employers to determine whether they want to hire the participant on a permanent basis. Third, W-2 participants with marketable skills are able to find unsubsidized employment without a trial job placement, and participants without those skills are not capable of a trial job. Fourth, employers may require workers skilled in a specific area or do not want to train an unskilled worker in a short-term paid internship. Finally, W-2 agencies historically have not had relationships with private sector employers that workforce development boards or other job service agencies have had.

13. The TEMP jobs proposed under AB 40 would address some of these potential weaknesses of the current trial jobs program. First, under the bill, the subsidy amount to participating employers would increase from \$300 per month to at least minimum wage for the hours actually worked by the TEMP participant, up to 40 hours per week. In addition, the W-2 agency would be allowed to negotiate a higher subsidy amount that would include reimbursement to the employer for all or a portion of the costs attributable to the employment of the TEMP participant, including any of the following: (a) federal social security and Medicare taxes; (b) state and federal unemployment contributions or taxes; and (c) worker's compensation insurance premiums.

14. Second, the bill would modify the time a participant could be placed in a TEMP job to six months from three months for a trial job. Six months would allow employers to better determine whether they want to hire the participant on a permanent basis. In addition, six months would provide additional time to train a participant for the job available.

15. Finally, the TEMP jobs would be a permanent employment position under W-2. W-2 agencies would not select participants to fill a limited number of slots. As a result, the TEMP employment position would be available to more W-2 participants with varying skill levels. It should be noted that after AB 40 was introduced, the administration has requested that TEMP jobs begin January 1, 2014, rather than October 1, 2013. The Committee could approve the Governor's request, as modified with the start date of January 1, 2014 (Alternative 1).

Costs for W-2 Agencies and DCF

16. The bill would provide no additional funding to W-2 agencies for the TEMP jobs. W-2 agencies would be expected to negotiate wage subsidies for employers within their current allocations. The following table compares the cost to DCF and W-2 agencies for placing a participant in a community service job or a TEMP job. Given the lack of participation in the trial jobs program, it is assumed that a W-2 participant would be placed in a CSJ if a TEMP job were not available. For comparison purposes: (a) the CSJ grant amount is the maximum amount based on a monthly benefit of \$653; and (b) wages are \$7.25 per hour for 40 hours per week. CSJ benefit costs could be lower depending on the number of hours of participation and whether the CSJ participant

was sanctioned. TEMP wages could be higher or lower depending on negotiated wages with the employer and whether the participant works fewer than 40 hours. In addition, it is assumed that there would be no additional cost to W-2 agencies for administration and services for a TEMP placement. Finally, CSJ administration and services costs are estimated at \$250 per month. The monthly average from January through March of 2013 for all paid and unpaid cases was \$212.

TABLE 3

Cost Comparison Between Community Service Job (CSJ) and Trial Employment Match Program (TEMP) Job (Six Month Placement)

	<u>CSJ</u>	<u>TEMP</u>
Cash Benefit Paid by DCF	\$3,918	N.A.
W-2 Agency Costs for Services and Administration	1,500	\$0
Wage Subsidy Paid by W-2 Agency*	N.A.	7,540
Payroll Taxes Paid by W-2 Agency**	N.A.	577
Worker's Compensation Paid by W-2 Agency**	190	366
Unemployment Insurance Paid by W-2 Agency**	<u>N.A.</u>	<u>431</u>
Total	\$5,608	\$8,914

*W-2 agency must pay wages of at least \$7.25 per hour for each hour worked in a TEMP placement.

**W-2 agency may negotiate for these costs.

17. As shown in the above table, it could cost \$3,306 more per participant to place a W-2 participant in a TEMP job rather than a CSJ position. However for W-2 agencies, the cost is \$7,224 more per participant (DCF pays CSJ benefits, while W-2 agencies pay for support services and TEMP wage subsidies). DCF indicates that it would be likely that W-2 agencies would take some time to increase the use of TEMP jobs and estimates that 50 to 75 W-2 participants would be placed in a TEMP job during 2013-14 and 100 to 150 would be placed in a TEMP job during 2014-15. Under current law, W-2 agencies are required to give priority to trial jobs over CSJs or transitional placements. Similarly, under the bill, W-2 agencies would be required to give priority to TEMP jobs over CSJs or transitional placements. To accommodate this increase in cost to the W-2 agencies, the Committee could provide \$450,000 in 2013-14 and \$900,000 in 2014-15 for the W-2 agency contracts (Alternative 2). As noted above, most of the W-2 participants placed in a TEMP job would otherwise be placed in a CSJ.

18. Alternatively, the Committee could modify the statutory language to eliminate the requirement that W-2 agencies give priority to TEMP jobs (Alternative 3). Eliminating this requirement would give W-2 agencies the flexibility to determine which placement was best for a W-2 participant within the funding available for the W-2 agency.

19. On the other hand, the requirement that priority be given to a TEMP job reflects the original intent with the trial jobs program when the W-2 program was created that participants be

placed in an employment position commensurate with their ability that would most closely resemble the private sector in order to move participants into unsubsidized employment as quickly as possible. In addition, it was assumed under the W-2 program that participants with more employment barriers would move up the W-2 ladder to ready them for unsubsidized employment (from transitional placements to CSJs to trial jobs to unsubsidized employment). Due to the lack of participation in trial jobs, movement up the ladder did not occur. By making the TEMP jobs more attractive to employers and requiring priority placement, this could be the final rung in the ladder for participants as initially envisioned to make the transition into unsubsidized employment more successful.

Disposable Income for TEMP participants

20. Because participants in TEMP jobs would earn wages instead of a grant, participants could be eligible for the federal earned income tax credit. 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 TEMP job 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 January 1, 2014, most of the additional federal revenues would not be realized until state fiscal year 2014-15. Based on a caseload of 120 participants in the period from January, 2014, to December, 2014, the amount of federal EITC funds that would be brought into the state could potentially total \$350,000 in 2014-15.

21. Under current law, full-year Wisconsin residents who are eligible for the federal EITC are also eligible for the state EITC. In addition, participants under the proposed program would also qualify for the state homestead tax credit. 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 placements. This provision would not apply to participants in a TEMP job.

22. 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, assuming the individual participates full-time and is not sanctioned; and (b) the proposed TEMP job position (at \$7.25 per hour, the current minimum wage, for 40 hours per week). The estimates assume that the family uses full-time day care for both children. The figures below are based on six months because that is the time limit for the TEMP placement.

TABLE 4

**Comparison of Disposable Income Under a CSJ Placement with a TEMP Placement
(Six Month Placement)**

	<u>CSJ Placement</u>	<u>TEMP Placement</u>
Grant	\$3,918	N.A.
Wages	N.A.	\$7,540
Payroll Taxes	N.A.	-577
FoodShare	3,086	2,527
Child Care Copay	<u>-260</u>	<u>-390</u>
Disposable Income	\$6,744	\$9,100

23. As shown in the table, participants in a TEMP job paying \$7.25 per hour would have 35% more in disposable income than under a current CSJ placement. The additional income is primarily due to wages almost twice as much as the CSJ grant amount. A CSJ or a TEMP participant may also qualify for the EITC or the homestead credit, depending on the employment situation during the other six months of the year.

24. There may be concerns that a TEMP job would eliminate incentives that exist in the current W-2 program to obtain unsubsidized employment. However, the TEMP job would be limited to six months. In addition, the TEMP jobs provide a greater incentive for employers to initially hire W-2 participants for these placements and then, potentially, to retain participants in unsubsidized employment after the investment of training the participant.

25. Also, there is some evidence that suggests a TEMP job would allow participants to obtain higher-paying unsubsidized jobs than under the current W-2 program and to move a higher percentage of TEMP job participants into unsubsidized employment than under the current W-2 program. The real work, real pay evaluation suggests these outcomes.

26. On the other hand, the Committee could deny the Governor's proposal (Alternative 4). The costs of the TEMP program would be greater than the current trial jobs program and CSJs. However, the trial jobs program has been unsuccessful in its goal of bridging the gap between CSJs and unsubsidized employment. The TEMP program under the bill could fulfill this role.

ALTERNATIVES

1. Approve the Governor's proposal to replace the trial jobs employment position under W-2 with the trial employment match program (TEMP) jobs employment position. Modify the date on which the TEMP jobs would begin to January 1, 2014.

2. Modify the Governor's proposal to provide \$450,000 FED in 2013-14 and \$900,000 FED in 2014-15 to the W-2 agencies to support the increased costs of providing services to

participants in TEMP jobs, beginning January 1, 2014, over the costs provided to CSJ participants.

ALT 2	Change to Bill Funding
FED	\$1,350,000

3. Modify the Governor's proposal to eliminate the requirement that a W-2 agency, in determining an appropriate placement for a W-2 participant, must give priority to a TEMP job placement over CSJ or transitional placements.

4. Delete provision

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