Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: http://legis.wisconsin.gov/lfb

March 25, 2015

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Expenditure Plan for Implementation of Wisconsin Shares Electronic Benefit Transfer Card System -- Agenda Item II

As part of 2013 Act 20, federal funding in the amount of $300,000 in 2013-14 and $2,000,000 in 2014-15 was placed in the Committee's federal funds general program supplementation appropriation under s. 20.865(4)(m) for the implementation of an electronic benefit transfer (EBT) system for the delivery of child care subsidies.

Before the Department of Children and Families (DCF) may implement the EBT system, it must submit a plan to the Committee for approval under a 14-day passive review process. On December 18, 2014, the Joint Committee on Finance received a plan from DCF. DCF requests that $1,265,000 FED in 2014-15 be transferred from the Committee's appropriation to the federal block grant operations appropriation in s. 20.437(2)(mc) in order to allow DCF to begin implementation of the EBT system.

On January 6, 2015, the Co-Chairs notified the DCF Secretary that the Committee would meet to consider the EBT implementation plan.

CURRENT LAW

Wisconsin's child care subsidy program, known as "Wisconsin Shares," provides child care assistance for low-income families to enable eligible persons to work or to prepare for employment. Under the program, the state subsidizes the cost of child care charged by providers chosen by the parent.

The common practice in the market for unsubsidized child care is to reserve and pay for care before it is provided. Under Wisconsin Shares, DCF authorizes payments for child care based upon assessment of the number of child care hours needed for the parents to participate in their approved activities. Payment is processed and delivered after child care is provided.

Payments under Wisconsin Shares to child care providers may be based on the number of hours a child is authorized to attend (enrollment-based), or based on the number of hours the child actually attended (attendance-based). Enrollment-based authorizations pay for a child care "slot" at the provider, whether or not the child actually attends all of the authorized hours. Under administrative rules, licensed group child care providers (which may provide care for nine or more children) generally receive enrollment-based payments. Certified child care providers (which may provide care for no more than six children and no more than three children under the age of seven) and licensed family child care providers (which may provide care for no more than eight children) may only receive attendance-based payments.

For both enrollment-based and attendance-based authorizations, subsidy payments to child care providers are processed after the provider submits biweekly attendance reports to DCF either via mail or through an online data system. Child care providers are required to maintain records of actual arrival and departure times for at least three years.

Payments to child care providers are capped in each county at maximum weekly reimbursement rates set by DCF using market rate surveys. Families are required to pay child care providers a portion of the payment depending on the size of the family, income, and other factors (the copay). Wisconsin Shares pays the remainder directly to the child care provider (the subsidy). If the child care provider's rates are higher than the subsidy amount, the parent is responsible for the difference.

The maximum subsidy available to a child care provider under Wisconsin Shares is the lowest of the following: (a) the maximum weekly reimbursement rate; (b) the number of authorized hours of child care provided in a week multiplied by the provider's private rate; or (c) the number of authorized hours of child care provided in a week multiplied by the hourly maximum reimbursement rate. By statute, the maximum rate for Level I (regular) certified providers cannot exceed 75% of the rate for licensed family child care providers, and the maximum rate for Level II (provisional) certified providers cannot exceed 50% of the rate for licensed family child care providers.

Subsidies paid to child care providers are adjusted based on the number of stars earned under the state's child care quality rating and improvement system, known as YoungStar. Two-star child care providers may receive up to a 5% reduction to their reimbursement rates. Three-star child care providers see no change. Four-star child care providers may receive up to a 10% increase and five-star child care providers may receive up to a 25% increase to their reimbursement rates. One-star providers are not compliant with state regulations and are not eligible to receive payments under Wisconsin Shares.

EBT BACKGROUND

The proposed EBT system would make the payment process more consistent with the practices commonly used in the market for unsubsidized child care. Instead of paying for care after it is provided, DCF would prospectively calculate the subsidy amount based upon the projected hours of child care needed by the parent. The subsidy, including adjustments made for YoungStar rating, would be transferred to an EBT account established on behalf of the parent at the beginning of each payment period (generally at the beginning of each month). Parents would be free to transfer funds at any time from the EBT account via telephone, website, or an EBT "swipe" card. The charged amounts would immediately and electronically transfer payment into the child care provider's bank account.

DCF anticipates that the calculation of the subsidy and copay amounts would remain the same as under the current payment system. The provider would not know what the subsidy amount is, unless told by the parent. If the child care provider's rates are higher than the subsidy amount, the parent would be responsible for the difference. Any unspent sums would remain in the parent's EBT account for use in the next payment period. DCF indicates that unspent sums would expire after a certain period of time (currently planned as being three months).

The proposed EBT system would end the use of attendance-based and enrollment-based authorizations for child care. Child care providers would no longer be required to report biweekly attendance to DCF as part of the Wisconsin Shares subsidy payment process. Instead, parents would be responsible for managing the subsidy they receive and would be free to decide whether to reserve a "slot" at a child care provider, purchase hourly child care, or save subsidy amounts for future use as needed. For auditing purposes, child care providers would still be required to maintain attendance records for at least three years.

Each family would receive one EBT swipe card and could have an optional alternate card holder. No transaction fees would be paid by parents or providers under the EBT system. Child care providers could choose to provide and maintain point of service card readers that work only with Wisconsin Shares EBT cards, at a cost of approximately $14.50 per month. However, a child care provider would not need to maintain a card reader in order to receive payments from the EBT system. In such cases, payment would be made via the internet or telephone.

There are three primary expenses associated with switching to an EBT payment system for Wisconsin Shares (described below in the next section). First, there are the costs associated with developing and implementing the new payment system. Second, ending the attendance-based child care authorization policy would allow more parents to reserve enrollment slots with child care providers. This would increase the subsidy payments for child care that is not actually attended by the child (which otherwise would not be paid under the current attendance-based authorization policy). Finally, subsidy payments in 2016-17 would reflect a one-time increase due to the overlap of prospective payments with one period of retrospective payments. A prospective payment for two weeks of Wisconsin Shares subsidies would be accelerated into 2016-17 that otherwise would have been paid in 2017-18. As a result, subsidy payments for 54 weeks would be made in 2016-17.

EBT IMPLEMENTATION PLAN

Pursuant to the Act 20 provision, the funds in the Committee's appropriation can be released and the EBT plan may be implemented only upon approval of the Committee. The EBT implementation plan must include specific information on the vendor selected, the total start-up and ongoing costs, and anti-fraud and program integrity safeguards.

The EBT implementation plan submitted by DCF includes the following.

Vendor. DCF has conducted a competitive procurement process and issued an Intent to Award to eFunds Corporation, which is a wholly owned subsidiary of Fidelity National Information Services, Inc. (FIS). FIS is the current vendor for Wisconsin's Supplemental Nutrition Assistance Program and is experienced in providing electronic payment card services for child care subsidy programs in other states. If the plan is approved, the contract would be for a term of five years and could be renewed by the mutual agreement of the parties for up to two additional two-year periods.

Start-up Costs. Initial costs for design and development of the EBT system by the vendor would total $675,000. This amount reflects the vendor's ability to re-use its current technology platform and adapt it to Wisconsin Shares. In 2014-15, $75,000 would be expended ($600,000 is anticipated for 2015-16).

DCF would make a number of changes to its preexisting child care information technology systems. Online information technology system modifications costing $935,000 in 2014-15 would update the current child care provider portal and allow parents to manage their child care benefits. DCF anticipates such costs would be $1,344,700 in 2015-16. DCF would also alter its data warehouse system to store and review transaction and payment histories at an estimated cost of $255,000 in 2014-15 and $935,000 in 2015-16.

Funding Requested for 2014-15. As described above, DCF requests $1,265,000 in 2014-15 for: design costs and vendor development ($75,000); online information technology updates ($935,000); and data warehouse modifications ($255,000).

Additional Costs for 2015-17 Biennium. The Governor's budget recommendations include $17.6 million in funding for the EBT implementation. First, funding of $2.9 million in 2015-16 and $1.6 million in 2016-17 would be provided for the administrative costs of implementing the EBT system and the first few months of operating the EBT system, including: (a) $1.3 million in 2015-16 and $1.1 million in 2016-17 for information technology upgrades and operation costs; (b) $0.9 million in 2015-16 and $0.3 million in 2016-17 for data warehouse upgrades; and (c) $0.6 million in 2015-16 and $0.2 million in 2016-17 for the vendor contract. Second, one-time funding of $10.0 million in 2016-17 would be provided to accelerate Wisconsin Shares subsidy payments. Third, $3.1 million would be provided in 2016-17 for increased subsidy costs associated with switching from an attendance-based payment system to a system of pre-attendance payments using the EBT card.

Ongoing Operations Costs. After the completion of the design and implementation of the EBT system, the ongoing costs of operating the information technology systems are expected to be about $500,000 per year.

In addition, ongoing vendor costs are expected to be $421,000 per year, based on a contractual fee of $1.17 per case per month for an estimated 30,000 cases per month. The monthly fee per case would cover all costs necessary to support day-to-day operations in the EBT card system (such as automation and customer service). The monthly fee would apply to all cases for which a child care benefit has been loaded into an EBT account but would not apply to cases in which benefits are not loaded into an account for the month. The fee would be fixed under the vendor contract for three years, but could be updated as the contract is renewed or renegotiated.

An additional $63,000 is also included in the vendor contract to allow for hourly post-implementation services, such as alterations requested by DCF or services to address system outages. There would be no charge for such hourly services unless requested by DCF.

The following table summarizes the costs of the EBT proposal.

Summary of EBT Plan Costs

	2014-15	2015-16	2016-17	Ongoing Annual Costs
One-time Startup Costs				
Design Costs and Vendor Development	$75,000	$600,000	$0	$0
Online Information Technology Updates	935,000	1,344,700	600,000	0
Data Warehouse Modifications	255,000	935,000	297,500	0
Wisconsin Shares Payment Acceleration	0	0	10,000,000	0
Operation Costs				
Vendor Contract	$0	$0	$210,600	$421,000
Information Technology Operations	0	0	500,000	500,000
Ending Attendance-based Authorizations	0	0	3,100,000	3,100,000*
Overall Total Costs	$1,265,000	$2,879,700	$14,708,100	$4,021,000

*Depending on the growth in the Wisconsin Shares program, future ongoing costs of ending the attendance-based payment system may be higher or lower.

Fraud and Program Integrity. Fraud and program integrity would be addressed in three ways. First, electronic transfers would be authorized only for specific children at a specific child care provider. Only the specifically authorized child care provider would be approved to charge the EBT account (up to but not exceeding the subsidy amount remaining in the EBT account). This restriction is intended to ensure that the subsidy amount has been correctly calculated and that each child care provider has been reviewed and approved for payment. Further, the restriction would prevent parents from cashing out the child care subsidy for other uses and prevent overpayment errors due to the reissuance of lost or stolen EBT cards (which would not affect the balance in the EBT account).

Second, DCF expects that parental review of child care bills would reduce the over-reporting of child care attendance by providers. Because subsidy payments would no longer be linked to attendance reporting, child care providers would not be able to earn additional subsidy amounts by over-reporting the amount of child care provided. Instead, parents would be responsible for managing the EBT account and would be liable for any amounts due over and above the subsidy. As a result, parents would serve as an additional layer of program integrity because they would have a vested interest in reviewing and reporting dishonest billing practices.

Third, DCF is developing a data warehouse to store and analyze payments made to providers. DCF will develop automatically generated "red-flag" reports for questionable transactions identified in the data warehouse in order to investigate possible cases of fraud.

Implementation Schedule. Under the plan submitted by DCF, the EBT system would be implemented for a small number of counties beginning in October, 2016. The rollout would expand to the rest of the state beginning January, 2017, and is anticipated to be available statewide in February, 2017. DCF expects to retire the currently-used retrospective reimbursement system six months after the statewide rollout is completed.

DCF indicates that the implementation schedule may need to be revised due to the length of time that has passed since the submission of the EBT plan. If the Committee approves the plan, DCF could execute the contract with the vendor, which would then determine if sufficient resources are available to achieve the original target date in October, 2016.

ANALYSIS

DCF's proposed EBT system would improve upon the current Wisconsin Shares payment system in several ways. First, the current payment system is vulnerable to over-reporting of attendance hours by child care providers. DCF does not have firsthand knowledge of the actual attendance of the child and therefore may not be able to recognize bills for child care which are inflated or erroneous. Further, DCF needs to review all payments for potential fraud, greatly increasing the odds that slight improprieties will go unnoticed. The EBT system is meant to improve Wisconsin Shares by recognizing that parents are in a better position than DCF to detect and report over-billing by the provider. Parents have direct knowledge of their own child's attendance and the incentive to maximize the value of their subsidy. Further, the burden on each parent to review their own bill is quite small. Therefore, the most efficient means of reviewing attendance is by the parent.

Second, the proposed EBT system would make subsidy payments more consistent with the practices used in the marketplace for unsubsidized child care. Retrospective and attendance-based payments under the current system make it more difficult for parents to reserve child care at their preferred providers. Therefore, the proposed system may expand the availability of child care for participants.

Third, the proposed EBT system would reduce the administrative burden on child care providers. Under the current system, providers must wait until the end of the billing cycle, and then prepare and submit an attendance report with a claim for payment. Child care providers must then wait for up to an additional ten days for payment to be processed. Under the EBT plan, providers would be paid immediately by the parent without the costs and delays associated with reporting to Wisconsin Shares.

On the other hand, several tradeoffs are associated with ending attendance-based authorizations for child care. First and foremost, ending attendance-based authorizations would remove cost savings measures currently employed by DCF. For example, DCF requires all licensed family child care providers to receive attendance-based payments. This is meant to prevent payment for days when a child is absent. In addition, licensed group child care providers may also be reimbursed based on attendance if a child's schedule varies widely from week to week (with a 10% rate increase) or if the provider has significantly over-reported attendance in the past. Approximately 40% of authorizations for care at licensed group providers are attendance-based for these reasons. The EBT system would remove both cost saving measures, freeing providers to charge for reserving slots of child care regardless of whether the child actually attends.

Second, ending biweekly attendance reporting may disrupt DCF efforts to investigate fraud and reduce payment errors. Although child care providers would still be required to retain attendance records for three years, the information would not be available to DCF except upon request.

Third, DCF is required by statute to track enrollment-based authorizations for underutilization. If less than 60% of the authorized hours over a six-week period are actually attended, DCF must adjust the authorized hours downwards to 90% of the highest attended week. Between December, 2012, and November, 2013, DCF used an automated computer system to review and change 20,855 authorizations, resulting in a reduction of 167,693 authorized hours of child care at a savings of approximately $1.3 million. Such savings would no longer be realized under the proposed EBT system (which would remove the distinction between enrollment-based and attendance-based authorizations, and hence there would be nothing to track).

Further, it must be noted that an EBT system does not necessarily require DCF to terminate attendance reporting by child care providers. Under a modified EBT implementation plan, DCF may be able to continue attendance-based payments by reviewing attendance reports and payment history.

Finally, because the current payment system could operate indefinitely into the future, all costs of implementing and operating the EBT system ($1.3 million in 2014-15, $2.9 million in 2015-16, $14.7 million in 2016-17, and ongoing costs of more than $4.0 million per year) could be avoided by denying the EBT plan. Alternatively, given the magnitude of the request for funding of EBT implementation costs in the 2015-17 biennium, the Committee may wish to postpone consideration of the EBT plan until deliberations on the 2015-17 biennial budget bill. Note that DCF indicates that delaying consideration would require alterations to the implementation schedule (as well as to certain costs) in the EBT plan.

ALTERNATIVES

1. Approve DCF's plan for the electronic delivery of child care subsidies and transfer

$1,265,000 FED in 2014-15 from the Committee's federal funds general program supplementation appropriation under s. 20.865(4)(m) to DCF's federal block grant operations appropriation under s. 20.437(2)(mc).

2. Approve the plan on the condition that DCF include attendance reporting by child care providers as part of the implementation of the EBT system.

3. Approve the plan on the condition that DCF include as part of the implementation of the EBT system: (a) attendance reporting by child care providers; and (b) adjustment of underutilized subsidies.

4. Approve the plan on the condition that DCF maintain attendance-based payments for child care as part of the implementation of the EBT system. Only licensed group child care providers would be authorized to accept pre-attendance payment for slots of child care. All other child care providers would be paid on a post-attendance basis for care actually provided by an electronic transfer of benefits after the parent has reviewed the bill.

5. Approve the plan on the condition that DCF include as part of the implementation of the EBT system for Wisconsin Shares: (a) attendance reporting by child care providers; (b) adjustment of underutilized subsidies; and (c) attendance-based payments for child care. Only licensed group child care providers would be authorized to accept pre-attendance payment for slots of child care. All other child care providers would be paid on a post-attendance basis for care actually provided by an electronic transfer of benefits after the parent has reviewed the bill.

6. Deny the request and withhold approval for implementation of DCF's plan for the electronic delivery of child care subsidies. Postpone consideration of the EBT system until deliberations on the 2015-17 biennial budget bill.

7. Deny the request.

Prepared by: John Gentry