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April 24, 2017

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 241: Mitigating the Benefit Drop-off in Wisconsin Shares

Assembly Bill 241 was introduced on April 13, 2017, and was referred to the Assembly Committee on Public Benefit Reform. The provisions of the bill are substantially similar to sections 867, 868, and 9406(3) of the 2017-19 biennial budget bill (LFB budget summary: page 105, #9)

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 program is funded primarily through the federal temporary assistance for needy families (TANF) block grant and the federal Child Care Development Fund (CCDF), which includes funding under the Child Care Development Block Grant (CCDBG) Act and the Social Security Act.

Payments to child care providers are capped at maximum weekly reimbursement rates set by the Department of Children and Families (DCF) for each county. DCF uses market surveys to establish the rates. Separate rates are set based on the child's age, the type of care provided, and the location of the provider.

Current law requires DCF to establish a copayment schedule under which participating parents are required to contribute to the cost of child care. A parent's copayment is based on income, family size, and the number of children in care. However, certain families participating in Wisconsin Shares are exempted from the copayment schedule promulgated by DCF. For example, certain teen parents who are not Learnfare participants are subject to the minimum copayment by statute.

After adjusting the maximum reimbursement rate by the copay, Wisconsin Shares pays the remaining amount to the child care provider (the subsidy). Participating child care providers may charge more than the maximum reimbursement, but families will be liable for all amounts exceeding the subsidy by choosing such providers.

Under the federal CCDF program, states are allowed to utilize CCDF funding to provide services to children in families with income equal to or less than 85% of the state median income (SMI) for a family of the same size. Family assets may not exceed $1.0 million.

Under state law, initial eligibility for Wisconsin Shares is limited to families with gross income of no more than 185% of the federal poverty level (FPL), which is $37,777 for a family of three in 2017. There is no asset limit on participation. Once eligible, families retain eligibility until gross income exceeds an exit threshold of 200% of FPL for two consecutive months ($40,840 for a family of three in 2017). As a result, for participants earning income near the exit threshold, a relatively small increase in income may cause a much larger loss in public assistance benefits.

Pursuant to administrative rules, Wisconsin Shares eligibility must be redetermined annually and in a timely manner following the receipt of a participating parent's report of a change in circumstances affecting his or her eligibility. Due to changes introduced by the CCDBG Act of 2014, (P.L. 113-186), once a participant is determined eligible for child care subsidies, federal law requires a minimum twelve-month eligibility period in which subsidies cannot be terminated for rising above the state financial eligibility level. Termination of subsidies prior to the end of this period will occur only once the participant’s income rises above the federal financial eligibility threshold of 85% SMI (which is $59,900 for a family of three under the federal guidelines prepared by the Administration for Children and Families for the low income home energy assistance program). Once a case has been closed for more than a calendar month, the family must reapply using the 185% FPL eligibility standard.

SUMMARY OF BILL

The bill would provide continued Wisconsin shares eligibility to participating families whose incomes have increased above the 200% FPL exit threshold. The effective date of the change would be the later of July 1, 2018, or the first day of the twelfth month beginning after the date of publication of the bill.

The bill would not provide for a new exit threshold. Instead, the family's copayment would increase by $1.00 for every $3.00 by which the family's gross income exceeds the current 200% FPL exit threshold. The subsidy amount would be reduced by an amount equal to the increase in the copayment. As a result, the subsidy would scale down with an increase in income rather than sharply dropping to zero at the exit threshold. This includes participating teen parents who are otherwise subject to the minimum copayment.

The bill would not provide eligibility for a family unless they originally apply for Wisconsin Shares with an income below 185% FPL. This means that some families with incomes above 200% FPL would be eligible for Wisconsin Shares because they originally applied with an income at or below 185% FPL, whereas other similarly sized families having the same or lower income would not be eligible.

The Attachment shows two examples of the eligibility expansion for five hypothetical families participating in Wisconsin Shares in Adams and Milwaukee Counties under the bill compared to an alternative exit threshold at the federal 85% SMI limit. The examples assume that the families consist of a single mother working full time, with children in full-time, licensed group care. Family A has one child in care (an infant). Family B has two children in care (an infant and a two-year old). Family C has three children in care (an infant, a two-year old, and a three-year old). Family D has four children in care (an infant, a two-year old, a three-year old, and a four-year old Family E has five children in care (an infant, a two-year old, a three-year old, a four-year old, and a five-year old).

As shown in the Attachment, because there is no new exit threshold under the bill, eligibility for child care subsidies would extend to the income level at which the copay would increase to equal the subsidy amount at the current 200% FPL exit threshold. For example, under current law, Family C in Adams County would be eligible for a monthly subsidy of $956 at 200% FPL (which is an annual income of $49,200 for a family of four). Earning any more income would result in the family becoming ineligible at the end of the redetermination period. Under the bill, instead of losing eligibility, the subsidy would be redetermined at a lower amount with the copay increasing by $1 for every $3 of income earned above the 200% FPL threshold. Assuming that the maximum reimbursement rate remains the same, Family C would continue to be eligible for child care subsidies until their annual income increases to $83,612 (340% FPL). At this point the copay would be equal to the maximum reimbursement rate and therefore no subsidy could be paid on their behalf.

For comparison, if the bill were amended to extend the exit threshold from 200% FPL to 85% SMI, Family C would remain eligible for child care subsidies until their annual income reaches $71,309 (290% FPL). The subsidy available at this income would be $342 per month. Similar to current law, earning any income above the new exit threshold of 85% SMI would result in Family C losing eligibility for child care subsidies.

It is important to note that in determining maximum reimbursement rates, DCF considers the market price of child care in each county. Because prices vary widely in different geographic areas due to differences in supply and demand as well as the costs of living, the maximum reimbursement rates are generally higher in urban counties than in rural counties. As a result, the subsidy amounts at the current 200% FPL exit threshold will typically be higher in more populated, urban counties. Copays, on the other hand, do not vary by county and are instead uniform throughout the state. Because the bill increases copays by $1 for every $3 of income a participating family earns above the 200% FPL threshold, families in urban counties (which generally have higher subsidies at the 200% FPL threshold) will typically remain eligible for child care subsidies at income levels higher than the income levels of families in rural counties. This is shown in the Attachment by comparing the examples for Adams County with the examples for Milwaukee County.

FISCAL EFFECT

The bill would not provide funding to support the expansion of Wisconsin Shares eligibility. Funding for TANF-related programs consists of many separate appropriations of general purpose revenue, program revenue, and federal funding which are pooled together and then collectively allocated under section 49.175 of the Wisconsin Statutes. These allocations are set as part of the biennial budget to fund program expenditures and potential modifications that have not yet been considered by the Legislature. As a result, the allocation for Wisconsin Shares will be determined at a future date as part of the budget bill.

Based on expenditure data in Wisconsin Shares and the distribution of income levels of the general population, it is estimated that the average cost of subsidies for each family extended in Wisconsin Shares would be approximately $350 per month. Based upon caseload data from recent years, it is reasonable to estimate that eligibility for approximately 150 families each month would be extended under the proposed expansion of Wisconsin Shares. Because the expected income gains of a participating family are unlikely to greatly increase copays in the near term, it is assumed that each family would remain in the program throughout 2018-19 and several years going forward. Thus, there would be 11,700 additional monthly payments in 2018-19 (12 monthly payments for 150 families extended in January, plus 11 monthly payments for 150 families extended in February, and so on). It is therefore estimated that the proposed expansion of Wisconsin Shares would cost $4.0 million in 2018-19 (11,700 monthly payments, averaging $350 each). The estimated cost would be $11.5 million in 2019-20 and $19.2 million in 2020-21.

For the substantially similar provisions regarding the Wisconsin Shares expansion under the budget bill, the administration estimated the cost would be $1.8 million in 2018-19. This estimate was based upon a typical Wisconsin Shares case of a three-person household with two children having an average subsidy of $704 per month. The administration assumed that an average of 734 families would have eligibility extended each month with an average copay of $500 per month.

The estimated annual cost of the proposed expansion under Assembly Bill 241 is higher than that estimated by the administration for two reasons. First, DCF indicates that the current caseload data suggests that a large proportion of families would remain eligible for child care subsidies until their children "age out" of Wisconsin Shares by reaching the age of 13 (or 19 for children with certain emotional, physical, or behavioral needs). This is because the income gains of families participating in Wisconsin Shares (and of families having incomes near 200% FPL more generally) are typically small year over year. This results in the copays rising slowly each year and hence families remaining in the program because their subsidies remain higher than the copay.

Second, because the copays rise slowly in the short term, in each future month another cohort of families would be extended in Wisconsin Shares who otherwise would have been deemed ineligible due to their income. Thus, the overall number of participating families in Wisconsin Shares would increase in each future month compared to the baseline caseload under the bill. This means that the overall number of monthly payments in 2017 will likely be larger than anticipated by the administration.

Following the introduction of the budget bill, the administration forwarded a number of suggested modifications to the Committee to correct errors in the bill or to amend the bill to better conform to the administration's intent. The submission included a suggestion that the Committee may want to consider specifying a new exit threshold for the program, and mentioned the 85% SMI federal standard as an example. This option would prevent the very high exit thresholds and significant geographical variation in income eligibility limits shown in the attachment, but the child care "cliff" effect would only be reduced instead of eliminated entirely.

If the bill were modified to provide for a new exit threshold, the estimated cost of the proposed expansion would likely fall significantly over the long term. This is because many children would likely lose eligibility prior to ageing out of Wisconsin Shares. However, there would be little estimated savings in 2018-19 from setting a new exit threshold. This is because the income gains of participating families would likely be small over the short term and hence few families would likely be impacted in 2018-19.

Prepared by: John Gentry
Attachment

ATTACHMENT

Wisconsin Shares Expansion for Five Hypothetical Families
Full-time, Licensed Group Care

Adams County

Family	A	B	C	D	E
Household size	2	3	4	5	6
Kids in care	1	2	3	4	5
Monthly Max Reimbursement	$486	$959	$1,432	$1,905	2,378
Monthly Copay at 200% FPL	332	404	476	548	620
Monthly Subsidy at 200% FPL	154	555	956	1,357	1,758
Expansion Under the Bill					
New monthly exit threshold	$3,168	$5,068	$6,968	$8,867	$10,767
% FPL at Exit	234%	298%	340%	370%	392%
Annual Income at Exit	38,020	60,816	83,612	106,408	129,204
Monthly Subsidy at Exit (Cliff)	0	0	0	0	0
Expansion with Exit Threshold at 85% SMI					
New monthly exit threshold	$4,041	$4,992	$5,942	$6,893	$7,844
% FPL at Exit	299%	293%	290%	287%	286%
Annual Income at Exit	$48,490	$59,900	$71,309	$82,719	$94,128
Monthly Subsidy at Exit (Cliff)	0	25	342	658	974

Milwaukee County

Family	A	B	C	D	E
Household size	2	3	4	5	6
Kids in care	1	2	3	4	5
Monthly Max Reimbursement	$1,058	$2,004	$2,950	$3,771	$4,592
Monthly Copay at 200% FPL	332	404	476	548	620
Monthly Subsidy at 200% FPL	726	1,600	2,474	3,223	3,972
Expansion under the bill					
New monthly exit threshold	$4,884	$8,203	$11,521	$14,466	$17,411
% FPL at Exit	361%	482%	562%	603%	634%
Annual Income at Exit	$58,609	$98,433	$138,257	$173,592	$208,926
Monthly Subsidy at Exit (Cliff)	0	0	0	0	0
Expansion with Exit Threshold at 85% SMI					
New monthly exit threshold	$4,041	$4,992	$5,942	$6,893	$7,844
% FPL at Exit	299%	293%	290%	287%	286%
Annual Income at Exit	$48,490	$59,900	$71,309	$82,719	$94,128
Monthly Subsidy at Exit (Cliff)	281	1,070	1,860	2,524	3,189