Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Allocation of Utility Public Benefits Funds: Earned Income Tax Credit (Administration, Workforce Development, General Fund Taxes)

[LFB 2003-05 Budget Summary: Page 35, #1, Page 182, #3, and Page 503, #24]

CURRENT LAW

Under current law, the state earned income tax credit (EITC) is funded with a combination of GPR and program revenue. The program revenue is federal temporary assistance for needy families (TANF) funding transferred from the Department of Workforce Development (DWD) to pay the refundable portion of the EITC. Currently, the PR portion is provided through an annual, sum-certain appropriation that is set equal to 80% of the credit's estimated total cost. The PR funding level has been based on an assumption that approximately 80% of EITC payments are refunded to TANF-eligible individuals. The GPR share is provided through a sum-sufficient appropriation and covers the portion of the credit not funded with TANF.

GOVERNOR

Increase funding for the EITC by $2,200,000 in 2003-04 and by $1,831,200 in 2004-05. The increases reflect the cost of the credit under current law, which the administration estimated at $70,600,000 in 2003-04 and $70,231,200 in 2004-05. In addition, modify the funding of the credit to reduce the portion funded with GPR and increase the portion funded with other revenue.

The bill would increase the non-GPR funding for the EITC from 80% to 82% of the estimated cost of the credit. For 2003-04, the increase in the non-GPR share would be funded through the PR appropriation from TANF revenue. However, for 2004-05, some of the TANF funding for the EITC would be replaced with revenue from the segregated utility public benefits trust fund. The SEG funding would be provided through a new, annual, sum-certain appropriation. Total funding for the EITC would be as follows: (a) $12,708,000 GPR and

$57,892,000 PR in 2003-04 [for a total of $70,600,000]; and (b) $12,831,200 GPR, $50,300,000 PR, and $7,100,000 SEG in 2004-05 [for a total of $70,231,200]. The funding recommendations are outlined in the following table:

		Governor's Budget		Change to Base	
	Base	2003-04	2004-05	2003-04	2004-05
GPR	$13,240,000	$12,708,000	$12,831,200	-$532,000	-$408,800
PR (TANF)	55,160,000	57,892,000	50,300,000	2,732,000	-4,860,000
SEG	0	0	7,100,000	0	7,100,000
Total	$68,400,000	$70,600,000	$70,231,200	$2,200,000	$1,831,200

DISCUSSION POINTS

1. Under current law, the estimated amount of the EITC refunded to TANF-eligible participants is paid through a PR appropriation from TANF revenue, and the balance of the EITC is paid through a sum-sufficient GPR appropriation. For both 2003-04 and 2004-05, the bill would increase the non-GPR funding for the EITC from 80% to 82% of the estimated cost of the credit. For 2004-05, $7,100,000 of the non-GPR funding would be SEG funding from revenue in the segregated utility public benefits trust fund. The balance of the non-GPR funding would be the PR appropriation from TANF revenue.

2. The Governor recommended using the public benefits funds to offset the TANF cost of the refundable portion of the EITC in order to balance the TANF budget. Subsequent to the introduction of the bill, additional TANF revenues have been identified due to a double-counting of child support expenditures over the past few years. As a result, the Governor recommended deleting the public benefits funding that would be allocated for the TANF portion of the EITC under the bill, and instead, using the public benefits funding to offset the GPR cost of the shared revenue program for 2004-05.

3. However, under a reestimate of TANF revenues and expenditures for the 2003-05 biennium, under the bill, as introduced by the Governor (with the $7.1 million in public benefits funding for 2004-05), there would be a projected deficit of $2.1 million in TANF funds on June 30, 2005. [The revised TANF estimates are discussed in LFB Paper #845.] Therefore, if the public benefits funding were not used to offset the TANF cost of the EITC in 2004-05, there would be a projected TANF deficit of about $9.2 million at the end of the biennium.

4. In addition, federal TANF regulations require the state to maintain a certain level of expenditures on TANF-eligible families in order to continue to receive the full amount of TANF funds it is eligible to receive. The state's maintenance-of-effort (MOE) requirement is estimated at $168.0 million per year for the 2003-05 biennium. If the state does not meet the required MOE, its TANF grant for the following federal fiscal year will be reduced by the amount of the MOE deficit. In addition, if the TANF grant is reduced in a fiscal year under this provision, the state must spend additional state revenues equal to the amount of the reduction, which effectively increases the MOE

obligation.

5. Federal TANF regulations do not permit the state to count state expenditures on the EITC toward the maintenance-of-effort requirement. Therefore, the use of public benefit revenues under the bill to support a portion of the EITC could not be counted toward the MOE obligation. However, the federal regulations permit the use of TANF funds directly to cover the refundable portion of the EITC.

6. If the Committee chooses to use public benefits funding for the EITC, as originally recommended by the Governor, a more desirable approach would be to appropriate the public benefits funding to DWD to be used for child care or another allowable TANF purpose. This would free up TANF funds that could be used to fund the EITC. Under this approach, the same amounts and types of funding would be provided as under the bill, but the public benefits expenditures could be counted toward the TANF MOE requirement. If the public benefits funds were not appropriated in this way and used for the TANF program, it is estimated that the state's MOE funding would be about $1.0 million short of the required level for fiscal year 2004-05. Therefore, unless other state funds were provided for TANF allowable activities in 2004-05, the state's TANF grant for 2005-06 could be reduced and the state's required contribution would be increased.

Reestimate Total Cost of EITC in 2004-05

7. The estimated total cost of the EITC in 2003-04 and 2004-05 is based on the expected inflationary adjustments to the federal credit parameters and projected growth in participation rates of Wisconsin residents. The federal parameters for tax year 2003, which affect the cost of the credit in 2003-04, have been set. The federal parameters for tax year 2004, which affect the cost of the credit in 2004-05, have not yet been established.

8. Based on current projections of the federal parameters for tax year 2004 and on anticipated growth in participation rates of Wisconsin residents, it appears that the cost of the credit in 2004-05 should be reestimated at $72,600,000. This reestimate is $2,368,800 more than the $70,231,200 estimate used in the bill.

Funding for Additional Cost of EITC in 2004-05

9. Under current law and the bill, the estimated increase in the cost of the credit in 2004-05 would be paid for through the sum-sufficient GPR appropriation. Compared to the bill, the estimated expenditures from the sum-sufficient appropriation would be increased by $2,368,800 GPR in 2004-05.

10. Alternatively, the increased cost could be funded using additional SEG funding from the public benefits trust fund. Following the Governor's proposed allocation of $27,100,000 SEG in 2004-05 from public benefits to other purposes under the bill, a remaining revenue stream estimated at $34,200,000 would be available under the energy conservation and efficiency component of public benefits. The Committee could choose to make the additional allocation for the EITC from this source. The effect would be to further limit the energy conservation and efficiency program

delivery levels in 2004-05. [The public benefits trust funds are described in greater detail in LFB Paper #115.]

11. If the Committee wished to use the SEG funding to cover the increased cost of the EITC, the funds could be routed through DWD to maximize the funds that could be counted toward the state's TANF MOE requirement. Using this approach for both the $2,368,800 additional funds needed for the EITC and the $7,100,000 SEG provided for the EITC in 2004-05 under the bill would result in funding for the EITC in 2004-05 as follows: (a) $12,831,200 GPR; (b) $59,532,000 TANF; and (c) $236,800 SEG. [A portion of the increased estimated cost of the EITC would have to be funded directly with SEG (or GPR), rather than with TANF, so that the total TANF funding for the EITC would not exceed the 82% maximum allowable amount.]

12. Compared to the bill, this option would have the following effects in 2004-05: (a) increase TANF funding for the EITC by $9,232,000 PR; (b) decrease SEG funding for the EITC by $6,863,200 SEG; and (c) replace $9,232,000 in TANF funding for DWD with SEG public utility funding. The net effect would be to increase total SEG funding by the $2,368,800 increase in the estimated cost of the EITC in 2004-05. There would be no net change in total GPR or TANF funding. However, by appropriating the public benefits funding to DWD, rather than directly for the EITC, this alternative would help cover the TANF MOE requirement.

ALTERNATIVES

1. Modify the bill to increase funding for the EITC in 2004-05 by $2,368,800 GPR. In addition, delete the $7,100,000 SEG appropriation for the EITC in 2004-05 and, instead, appropriate $7,100,000 SEG to DWD for TANF-eligible activities. Further appropriate $7,100,000 in additional TANF funds for the EITC. The net effect of these provisions would be an increase of $2,368,800 GPR in 2004-05. [The increase in PR that is shown in the box reflects the transfer of federal TANF funds in DWD to the TANF PR-S appropriation for the EITC.]

Alternative 1	GPR	PR
2003-05 FUNDING (Change to Bill)	$2,368,800	$7,100,000

2. Adopt Alternative 1 with a modification to increase the use of funding from the segregated public benefits trust fund for the EITC by $2,368,800 SEG in 2004-05 (rather than using GPR, as under Alternative 1). Of the additional SEG funding, appropriate $236,800 SEG directly for the EITC and appropriate $2,132,000 to DWD for TANF-eligible activities. In addition, decrease TANF funding for DWD by $2,132,000 and, instead, appropriate the TANF funds for the EITC. The net effect of this alternative would be an increase of $2,368,800 SEG in 2004-05. [The increase in PR that is shown in the box reflects the transfer of federal TANF funds in DWD to the TANF PR-S appropriation for the EITC.]

Alternative 2	**SEG**	**PR**
2003-05 FUNDING (Change to Bill)	$2,368,800	$9,232,000

Prepared by: Carrie Jakel and Faith Russell