



## Legislative Fiscal Bureau

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May 20, 2003

Joint Committee on Finance

Paper #847

### *Temporary Assistance for Needy Families (TANF)*

## **W-2 Agency Contracts -- Cash Benefits, Wages, and Stipends Allocation (DWD -- Economic Support and Child Care)**

[LFB 2003-05 Budget Summary: Page 490, #3]

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### **CURRENT LAW**

Wisconsin Works (W-2) employment benefit funding is used for monthly grants and employer subsidies paid under subsidized W-2 employment positions and caretaker of newborn infant (CNI) grants. W-2 benefits are paid by W-2 agencies under contract with DWD. The current W-2 contracts run from January 1, 2002, through December 31, 2003, and allocate \$99.5 million for W-2 employment benefits.

The contract allocations under 2001 Act 16 (the 2001-03 biennial budget) assumed \$98.6 million for W-2 employment benefits. Act 16 included funding for the first 18 months of the current contracts, or \$73,964,400, with the assumption that the remaining six months, or \$24,654,800, would be budgeted in 2003-04. [DWD shifted \$870,400 from administration and services to W-2 benefits under the final contracts, resulting in the total W-2 contract allocation of \$99.5 million. Therefore, under the actual contracts, the funding W-2 benefits for the final six months would total \$25,525,200. However, the transfer is not reflected in the statutory allocations.]

### **GOVERNOR**

Increase funding for W-2 participants in subsidized employment positions and CNI grants by \$17,129,800 annually. In addition, expand the current statutory W-2 benefit allocation to include wages and stipends under the new transitional subsidized private sector job

employment program that would be created under the bill for the 2004-2005 W-2 contract period. Funding would total \$66,439,400 annually. This amount does not include the increase in W-2 benefits relating to the provision that would extend caretaker of newborn infant (CNI) grants from 12 weeks to six months (an increase of \$4,988,100 in 2003-04 and \$11,971,400 in 2004-05 in W-2 cash benefits under the bill). Base funding for cash benefits is \$49,309,600. Provisions relating to the proposed transitional subsidized private sector job program and the extension of CNI grants are discussed in subsequent issue papers.

The statutory allocations for W-2 benefits under the bill, including CNI grants, would include \$35,713,700 in 2003-04 for the last six months of the 2002-2003 W-2 agency contracts, and \$35,713,800 for the first six months of the 2004-2005 contracts. The benefit allocation in 2004-05 would total \$78,410,800 for the next 12 months of the 2004-2005 contracts. Funding for the final six months of the 2004-2005 contracts would be included in the 2005-07 biennial budget.

## **DISCUSSION POINTS**

1. There is an error under the bill in the 2003-04 W-2 benefit allocations between contract periods. The benefits should include \$33,219,700 for the last six months of the 2002-2003 contracts and \$38,207,800 for the first six months of the 2004-2005 contracts. As a result, under the bill, funding for the 2002-2003 contracts would be overstated by \$2,494,000, and funding for the 2004-2005 contracts would be understated by the same amount. The remainder of this paper will assume the intended allocation amounts (Alternative A1) and incorporate any changes the Committee makes so that the allocations are accurately reflected under the bill.

2. The Joint Committee on Finance has established two contingency funds, totaling \$20,308,200, for W-2 cash benefits for the 2001-03 biennium. Increases in cash benefit caseloads and expenditures led DWD to submit a request for release of a portion of those funds to supplement cash benefit funding for the Milwaukee County W-2 agencies. In order for the W-2 agencies to access the contingency funds, DWD amended the W-2 agency contracts to require the agencies to contribute: (a) an amount equal to 50% of their community reinvestment funding earned during the 2000-2001 W-2 contract period; and (b) out-of-pocket funds equal to 5% of their original cash benefit allocation under the current W-2 contract. In our analysis of the request, the total projected cash benefit deficit for these agencies through December 31, 2003, (the end of the contract period) was \$29,224,400. After taking into account the required W-2 agency contributions, the net cash benefit deficit for the Milwaukee County W-2 agencies through December 31, 2003, was projected at \$21,441,200.

3. Because the Committee only has the authority to release funds to be used in the current biennium and funding for 2003-04 would be addressed as part of the 2003-05 budget deliberations, the Committee approved the release of \$13,801,200 to fund the Milwaukee County W-2 agency projected deficits through June 30, 2003, leaving \$6,507,000 in contingency under the Committee's federal program supplements appropriation. This action occurred at the Committee's May 5, 2003, meeting under s. 13.10.

## 2002-2003 W-2 Agency Cash Benefit Allocations

4. As noted, base funding for W-2 cash benefits totals \$49,309,600. Based on the 2002-2003 W-2 agency contract funding allocated under 2001 Act 16, funding for the last six months of the contracts would total \$24,654,800. However, under the final contracts, DWD shifted \$870,400 from W-2 administration and services to cash benefits; therefore, funding to fulfill the remaining six months of the contract allocations would total \$25,525,200.

5. The bill would provide increased funding for cash benefits of \$8,564,900 for the remaining six months of 2002-2003 contracts to reflect increases in the W-2 cash benefit caseload, for total funding of \$33,219,700. The funding includes \$8,030,500 for cash benefits under paid W-2 employment positions and \$534,400 for CNI grants.

6. Current W-2 cash benefit caseloads have increased more than 50% over the caseload two years ago when the 2002-2003 W-2 agency contract allocation levels were being determined. Table 1 below compares the W-2 cash benefit caseload in January, 2001, with the caseload in March, 2003.

**TABLE 1**

### **Comparison of W-2 Cash Benefit Caseload January, 2001, vs. March, 2003**

	<u>January, 2001</u>	<u>March, 2003</u>	<u>% Increase</u>
Paid W-2 Employment Cases	5,595	8,697	55.4%
Caretaker of Newborn Infant Grant Cases	<u>1,084</u>	<u>1,345</u>	24.0
Total	6,679	10,042	50.3%

7. Under the bill, the W-2 cash benefit amount for W-2 employment positions (excluding CNI grants) assumes an average caseload of 8,900 per month with an average benefit level of \$510 per month over the 2003-05 biennium. The assumed caseload for CNI grants is 1,482 per month under current law (without the extension proposed under the bill) at the CNI grant level of \$673 per month.

8. Because the average W-2 benefit payment has increased over the current contract period, the projections used in the s.13.10 analysis for the Milwaukee County W-2 agencies were based on the average benefit expenditures for January through March, 2003. The average W-2 benefit paid to persons in W-2 employment positions for that period was \$545.80 per month.

9. Based on the average W-2 benefit expenditures for January through March, 2003, an additional \$3,388,400 would be required in 2003-04 to fully fund the remaining six months of the 2002-2003 W-2 agency benefit contracts (Alternative A2).

10. However, as noted above, the current contracts, as amended by DWD, require the W-2 agencies to contribute a certain amount of funds toward the projected deficits prior to obtaining supplemental funds for W-2 benefits from the contingency funds. In addition, prior to requesting the release of contingency funds for the Milwaukee County W-2 agencies, DWD examined overall funding available to the agencies to determine if other funds could be used to offset the projected deficits. Therefore, it would seem appropriate that DWD would require other W-2 agencies that come forth for additional funds for the last six months of the current contracts to make the same contributions that have been required of the Milwaukee W-2 agencies.

11. If DWD were to require the W-2 agencies that need additional funds to contribute 5% of the W-2 agency's benefit allocation and 50% of the amount of community reinvestment funds earned by the agency, as required under the contracts to access the supplemental contingency funds, the amount of additional funding that would be needed to fully fund the projected W-2 benefits for the last six months of the current contracts would be reduced to \$2,105,100 (Alternative A3).

12. It should be noted that some W-2 agencies will likely underspend their 2002-2003 W-2 benefit allocations. Based on current expenditure levels, there could be approximately \$2.0 million in W-2 benefit surpluses among some W-2 agencies. Therefore, the Committee could approve the amount of funding recommended by the Governor for the remaining six months of the current contracts (Alternative A1). Under this alternative, DWD would likely have to: (a) require W-2 agencies to contribute toward the projected deficits; and (b) reallocate benefit allocations among W-2 agencies to transfer funding from agencies that have projected surpluses to those that have projected deficits.

13. It could be, however, difficult for DWD to predict benefit surpluses with certainty until the current contracts, which end on December 31, 2003, are closed out. The Committee could provide half of the estimated funding that would be needed to fully fund the W-2 benefits for those W-2 agencies with projected deficits, assuming that the agencies would be required to contribute toward the projected deficits, or \$1,052,500 in 2003-04 (Alternative A4). This would still require DWD to reallocate funds among those agencies with projected surpluses to those with projected deficits; however, it would provide some flexibility in predicting final W-2 benefit spending levels through December 31, 2003.

14. It should be noted that, under the bill, other funds available to the W-2 agencies would be reduced. Funds for W-2 agency services would be reduced by approximately \$10 million in 2003-04 for the last six months of the 2002-2003 contracts. In addition, while retaining the statutory allocation and authority for performance bonuses, the bill would not allocate any funding for W-2 agency bonuses for the 2002-2003 W-2 contracts. The current contracts provide that performance bonuses will be based on the amounts provided under the 2003-05 biennial budget act. DWD had requested an amount equal to 4% of the contracts for performance bonuses. By retaining the statutory allocation, the bill would allow DWD to submit a request to DOA to allocate the funding for performance bonuses in 2003-04 if DWD identified underspending in other programs that could be allocated for bonuses. Further, if DWD received additional TANF funds that could be allocated for performance bonuses, DWD and the Governor could submit a request to the Joint

Committee on Finance under the 14-day passive review process in s.16.54 of the statutes for allocation of the funds.

15. The bill would also eliminate the statutory allocation and authority for community reinvestment funds, including the remaining \$2,213,800 that is owed to the W-2 agencies based on the amounts that they earned for performance during the 2000-2001 contract period, and \$656,000 that was to be paid to Milwaukee County to fulfill an agreement between Employment Solutions, Inc. (ESI), a former W-2 agency, and DWD. Therefore, if the W-2 agencies were required to contribute 50% of the amount of community reinvestment earned toward the projected deficits, it would represent about 66.7% of the amount of community reinvestment funds actually received, if the provision to not fund the remaining \$2,213,800 in community reinvestment funds is adopted.

### **2004-2005 W-2 Cash Benefits, Wages, and Stipends**

16. The bill, amended to reflect the Governor's intent, would allocate \$38,207,800 in 2003-04 and \$78,410,800 in 2004-05 for W-2 cash benefits, wages, and stipends for the next round of W-2 contracts running from January 1, 2004, through December 31, 2005 (Alternative B1). This would be provided as follows: (a) \$5,985,700 in 2003-04 and \$11,971,400 in 2004-05 would be for cash grants paid to caretakers of newborn infants under current law; (b) \$4,988,100 in 2003-04 and \$11,971,400 in 2004-05 would be provided to extend cash grants to caretakers of newborn infants from 12 weeks to six months (discussed under issue paper #849); and (c) \$27,234,000 in 2003-04 and \$54,468,000 in 2004-05 would be provided for W-2 cash benefits for persons in paid W-2 employment positions, and for wages and educational stipends for persons under the new subsidized transitional private sector jobs initiative.

17. Under current law, all W-2 benefits are paid by W-2 agencies under contracts with DWD. Under the bill, beginning on January 1, 2004, DWD, instead of the W-2 agencies, would make payments to employers to reimburse them for wages and other expenses relating to employing participants under the new transitional subsidized private sector job provisions. These payments would be made from the funds provided for W-2 benefits, wages, and stipends under the bill. The bill does not include any assumptions on the number of participants who would be employed in such positions, or the potential cost to DWD of reimbursement to employers. DOA indicates that the proposal is intended to be cost-neutral and that DWD would have to manage funds so that benefits, wages, and stipends for all subsidized W-2 employment would be within the amounts allocated under the bill.

18. In establishing the 2004-2005 W-2 agency contracts, DWD would be required to make assumptions to determine the amount of funding that would be retained by DWD for the employer reimbursements and the amount that would be provided to W-2 agencies for cash benefits and educational stipends. Information on the amount of funds that may be withheld by DWD and the amount that would be available for W-2 agency contract allocations was not available at the time of writing this paper. Since the population that would be eligible for employment under the new proposal would be the current community services job (CSJ) caseload and the intent is that the proposal would not increase the cost of the W-2 program, for the purposes of this paper, the

amounts allocated for W-2 benefits, wages, and stipends will be based on caseload and cost projections under the existing W-2 program. It should be noted that DOA officials indicate that the subsidized transitional jobs initiative could reduce the overall cost of W-2 benefits, because people in those positions would move into unsubsidized employment more quickly than other W-2 positions; however, no estimate is provided. The proposal creating the subsidized transitional private sector job program and related provisions are discussed under issue paper #848.

19. As noted above, the W-2 cash benefit caseload has grown by more than 50% over the past two years. Funding under the bill to address caseload increases (excluding funds relating to the provision to extend CNI benefits) would represent a 34.7% increase in the 2004-2005 contract period over the current contracts. However, as noted above, funding provided in the current contracts is expected to be insufficient to fund the remaining six months of the contract period, because of caseload increases.

20. The bill assumes the subsidized W-2 employment caseload would increase to 8,900 per month over the 2003-05 biennium, a 2.4% increase compared to the monthly average of 8,692 cases for January through March, 2003. The bill also assumes an average monthly CNI caseload of 1,482, an increase of 10.8% over the monthly average of 1,337 cases for January through March, 2003.

21. As indicated above, under current law, caretakers of newborn infants less than 12 weeks old are eligible for a monthly grant of \$673. Persons in a CSJ are eligible to receive a monthly grant of \$673. Persons in a W-2 transitional placement are eligible to receive a monthly grant of \$628. Employers of persons in a trial job are eligible to receive reimbursement of up to \$300 per month to offset the cost of the person's wages. These amounts are maximum amounts; the actual benefits paid are generally less than the maximum, because persons participate on a part-time basis, or may be sanctioned for not fulfilling participation requirements.

22. Under the bill, the assumed monthly average cash benefit for persons in W-2 paid employment positions is \$510. This was based on the average monthly payments for January, 2002, through September, 2002. As noted above, the actual average benefit level has increased over the last several months with an average amount for W-2 paid employment positions (excluding CNI grants) for the period January through March, 2003, of \$545.80 per month. The average benefit level paid for the 2002-03 fiscal year through March, 2003, is \$524 per month.

23. Participation on a part-time basis has actually risen since DOA's projections were prepared. In addition, the proportion of persons in W-2 transitional placements, which have a lower maximum grant payment, has increased slightly more than the proportion of CSJ placements, which have a higher maximum grant payment. Therefore, the increased monthly W-2 benefit amount in recent months could be due to decreased sanctions. At least one W-2 agency has been cited for inappropriate sanctions. In addition, the Secretary of DWD has indicated that one of her top priorities is to reduce inappropriate sanctions under the W-2 program. If the increased average benefit level is due to a reduction in inappropriate sanctions of W-2 participants, it is not likely that the benefit level would go down over the biennium.

24. Based on the current average grant level of \$545.80 per month for January through March, 2003, the amount of funding provided under the bill for W-2 cash benefits, wages, and stipends would fund an average of 8,316 paid W-2 employment cases per month over the contract period. This would be a reduction of 4.3% to the monthly average of 8,692 cases for January through March, 2003. If the monthly benefit averaged \$524 over the biennium, the amount budgeted under the bill would fund an average of 8,661 cases per month. It is possible that, given predictions of the economy improving, W-2 caseloads could go down, or at least level off, over the biennium. Therefore, the funding provided for the first 18 months of the next W-2 agency contracts could be sufficient to fund the W-2 benefit caseloads (Alternative B1).

25. However, the subsidized W-2 employment caseload has been growing at a rate of about 0.7% per month since January, 2002. If the caseloads continue to increase at that rate, the average caseload could reach 9,515 per month for the first six months of the contracts and 10,133 for the next 12 months of the contracts. Additional funding of \$3,924,800 in 2003-04 and \$11,902,000 in 2004-05 would be required to fully fund caseloads at this level (Alternative B4).

26. On the other hand, with anticipated improvement in the economy, it is possible that there would be some decrease in the growth rate and leveling off of the subsidized W-2 employment caseload over the first 18 months of the next contract period. Therefore, DOA's assumption of 8,900 subsidized W-2 employment cases could be realistic. If the current average monthly benefit level of \$545.80 per month were applied to the 8,900 cases per month assumed under the bill, an additional \$1,911,700 would be needed in 2003-04 to fully fund the first six months of the 2004-2005 W-2 contracts and \$3,823,400 would be needed in 2004-05 to fully fund the next 12 months of the contracts (Alternative B3).

27. If the average W-2 employment caseload were to remain at the current average of about 8,700 per month over the biennium, and assuming the current monthly benefit level of \$545.80, an additional \$1,256,800 in 2003-04 and \$2,513,500 in 2004-05 would be required to fully fund the first 18 months of the 2004-2005 W-2 contracts (Alternative B2).

## **ALTERNATIVES**

### **A. 2002-2003 W-2 Agency Cash Benefit Allocations**

1. Approve the Governor's recommendation to provide additional funding of \$8,564,900 in 2003-04 to reflect increases in W-2 cash benefit caseloads for the last six months of the 2002-2003 W-2 agency contract period. In addition, modify the bill to accurately reflect that \$33,219,700 would be allocated in 2003-04 for W-2 benefits under the 2002-2003 W-2 contracts.

2. Modify the Governor's recommendation to provide an additional \$3,388,400 FED in 2003-04 (for total increased funding of \$11,953,300), to fund the projected W-2 benefit expenditures for the last six months of the 2002-2003 W-2 agency contract period based on average expenditures for January through March, 2003. The total statutory allocation for W-2 benefits would be \$36,608,100 in 2003-04 for the remaining six months of the 2002-2003 W-2 contracts.

<b><u>Alternative A2</u></b>	<b><u>FED</u></b>
<b>2003-05 FUNDING</b> (Change to Bill)	\$3,388,400

3. Modify the Governor's recommendation to provide an additional \$2,105,100 FED in 2003-04 (for total increased funding of \$10,670,000) to fund the projected W-2 benefit expenditures for the last six months of the 2002-2003 W-2 agency contract period based on the average expenditures for January through March, 2003. This option assumes that W-2 agencies would be required to make the same contributions toward the projected deficits to access additional benefit funding as required under the current contracts to access to supplemental contingency funds. The total statutory allocation for W-2 benefits would be \$35,324,800 in 2003-04 for the remaining six months of the 2002-2003 W-2 contracts.

<b><u>Alternative A3</u></b>	<b><u>FED</u></b>
<b>2003-05 FUNDING</b> (Change to Bill)	\$2,105,100

4. Modify the Governor's recommendation to provide an additional \$1,052,500 FED in 2003-04 (for total increased funding of \$9,617,400) to fund one-half of the amount needed to fully fund the projected W-2 benefit expenditures for the last six months of the 2002-2003 W-2 agency contract period based on the average expenditures for January through March, 2003. This option assumes that W-2 agencies would be required to make the same contributions toward the projected deficits to access additional benefit funding as required under the current contracts for access to supplemental contingency funds. In addition, DWD would be required to examine potential W-2 agency benefit surpluses and reallocate funding, to the extent possible, to W-2 agencies with projected deficits. The total statutory allocation for W-2 benefits would be \$34,272,200 in 2003-04 for the remaining six months of the 2002-2003 W-2 contracts.

<b><u>Alternative A4</u></b>	<b><u>FED</u></b>
<b>2003-05 FUNDING</b> (Change to Bill)	\$1,052,500

**B. 2004-2005 W-2 Cash Benefits, Wages, and Stipends**

1. Approve the Governor's recommendation to provide additional funding of \$8,564,900 in 2003-04 and \$17,129,800 in 2004-05 to fund W-2 cash benefits, wages, and stipends for the first 18 months of the 2004-2005 W-2 contracts. In addition, modify the bill to accurately reflect the amount that would be allocated in 2003-04 for W-2 benefits, wages, and stipends, under the 2004-2005 W-2 contracts.

2. Modify the Governor's recommendation to provide an additional \$1,256,800 FED in 2003-04 and \$2,513,500 FED in 2004-05 to fund W-2 cash benefits, wages, and stipends for the first 18 months of the 2004-2005 W-2 contracts. Total increased funding under the bill would be \$9,821,700 in 2003-04 and \$19,643,300 in 2004-05. The funding level is based on the current



average subsidized employment caseload of 8,700 per month, and the current average benefit of \$545.80 per month. In addition, the funding assumes 1,482 CNI grant cases per month, as assumed under the bill.

<u>Alternative B2</u>	<u>FED</u>
<b>2003-05 FUNDING</b> (Change to Bill)	\$3,770,300

3. Modify the Governor's recommendation to provide an additional \$1,911,700 FED in 2003-04 and \$3,823,400 FED in 2004-05 to fund the first 18 months of W-2 cash benefits, wages, and stipends under the 2004-2005 W-2 contracts. Total increased funding under the bill would be \$10,476,600 in 2003-04 and \$20,953,200 in 2004-05. The funding level is based on an average of 8,900 subsidized employment cases per month, as assumed under the bill, and the current average benefit of \$545.80 per month. In addition, the funding assumes 1,482 CNI cases per month, as under the bill.

<u>Alternative B3</u>	<u>FED</u>
<b>2003-05 FUNDING</b> (Change to Bill)	\$5,735,100

4. Modify the Governor's recommendation to provide an additional \$3,924,800 FED in 2003-04 and \$11,902,000 FED in 2004-05 to fund the first 18 months of W-2 cash benefits, wages, and stipends under the 2004-2005 W-2 contracts. Total increased funding under the bill would be \$12,489,700 in 2003-04 and \$29,031,800 in 2004-05. The amounts are based on a projected monthly increase in the W-2 paid employment position caseload of 0.7% per month times the current average benefit under a W-2 paid employment position of \$545.80. In addition, the funding assumes the 1,482 CNI cases per month, as under the bill.

<u>Alternative B4</u>	<u>FED</u>
<b>2003-05 FUNDING</b> (Change to Bill)	\$15,826,800

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