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Joint Committee on Finance

Paper #196

W-2 Benefits (Children and Families -- Economic Support and Child Care)

[LFB 2013-15 Budget Summary: Page 108, #2]

CURRENT LAW

Prior to January 1, 2013, monthly benefits for participants in the Wisconsin Works (W-2) program were paid by W-2 agencies that the Department of Children and Families (DCF) contracted with to administer the W-2 program at the local level. W-2 agencies received three separate allocations to administer W-2: administration, services, and benefits. Under the 2010-2012 contracts, W-2 was administered at the local level as follows: (a) 37 counties were served by county human/social services agencies; (b) 34 counties outside of Milwaukee were served by non-county agencies; and (c) six non-county agencies covered five regions in Milwaukee County.

The 2013-2016 W-2 agency contracts include a number of significant changes to local administration of the W-2 program. First, the state was consolidated into 10 geographical areas-- four areas in Milwaukee County and six that divide the rest of the state. Second, the payment structure for W-2 agencies changed from reimbursement for allowable costs to a capitated payment based on enrollment numbers. Finally, W-2 agencies are no longer responsible for the payment of W-2 benefits. Instead, DCF pays W-2 benefits as a direct state activity and may impose enrollment limits on any geographic area at any time during the contract period.

Base funding for W-2 benefits under 2011 Act 32 was initially established at \$72,131,500. However, due to increased caseloads in the W-2 program, additional funding was reallocated to W-2 benefits in 2012-13 in the amount of \$12,931,400. Therefore, base funding for W-2 benefits is \$85,062,900. W-2 benefits are funded with the temporary assistance for needy families (TANF) block grant and other TANF-related revenues.

GOVERNOR

Reduce funding by \$12,931,400 FED in 2013-14 and \$20,768,900 FED in 2014-15 for payments to W-2 participants in subsidized employment positions, caretaker of newborn infant grants, and at-risk pregnant women grants, under current law. With these reductions, the total allocation for cash benefits would be \$72,131,500 in 2013-14 and \$64,294,000 in 2014-15.

In addition, modify current law to reflect that W-2 benefits are no longer part of the W-2 agency contracts by: (a) eliminating a requirement that W-2 agencies return to DCF an amount equal to the total amount of benefits withheld for W-2 participants for missed work or education and training activities; (b) eliminating references regarding the payment of monthly benefits for community service jobs, technical college placements, and transitional placements by W-2 agencies; and (c) specifying that DCF, or an entity contracting with DCF, must pay pro-rated W-2 benefits for community service job placements depending on the number of hours per week the participant is placed in the job.

DISCUSSION POINTS

A. W-2 Benefits Funding

1. From the W-2 benefits allocation, DCF pays a monthly grant amount to W-2 participants placed in a community service job or transitional placement. Monthly grants are also paid to W-2 participants who receive a caretaker of a newborn infant (CNI) grant or an at-risk pregnant woman grant.

2. The bill assumes that the starting W-2 caseload in July of 2013 will be 12,686 and that the caseload would decrease by 1% each month until it reaches 10,068 in June of 2015 at the end of the 2013-15 biennium (Alternative A1). No distinction is made among the CNI caseloads, at-risk pregnancy caseloads, and W-2 paid employment caseloads.

3. Estimates under the bill use actual caseload and expenditure data through August, 2012. Beginning with September, 2012, caseloads are estimated to decrease by 1% per month until June of 2015.

4. Updating actual caseload and expenditure data from September, 2012, through March, 2013, caseloads have increased by 5.0% and expenditures have increased by 8.5% over that time period, rather than both decreasing by 5.9% as is estimated under the bill. Using the administration's methodology (a decrease of 1% per month for total caseloads and expenditures), but starting the 1% reduction with April, 2013, rather than September, 2012, W-2 benefits expenditures would total \$82,014,000 in 2013-14 and \$72,696,000 in 2014-15. The Committee could provide \$9,882,500 FED in 2013-14 and \$8,402,000 FED in 2014-15 to fund W-2 benefits with the assumption that caseloads and expenditures would decrease by 1% per month, beginning April, 2013 (Alternative A2).

5. Under current law, caretakers of newborn infants less than eight weeks old are eligible for a monthly grant of \$673. Unmarried women who are not custodial parents of a dependent child and are in their third trimester of a pregnancy that is medically verified and shown by medical documentation to be at-risk are also eligible for a monthly grant of \$673. Persons in a community service job are eligible for a monthly grant of \$653. Persons in a transitional placement are eligible to receive a monthly grant of \$608. These monthly grant amounts are maximum amounts. The actual benefits paid are generally less than the maximum because persons participate on a part-time basis, may be sanctioned for not fulfilling participation requirements, or may enter or leave the program in the middle of the month.

6. Under the bill, the average monthly caseload is estimated at 12,011 families in 2013-14 and 10,646 families in 2014-15. There is no specific allocation for CNI caseloads or at-risk pregnant women caseloads. The benefit amount for all grant recipients is estimated at \$500 per month in 2013-14 and \$503 per month in 2014-15.

7. The monthly caseloads of CNI grant recipients and at-risk pregnant women grant recipients typically do not vary with changes in economic conditions as much as the caseloads of the W-2 employment positions. In addition, the benefit amount is typically higher, on average, for CNI grants than those for the W-2 employment positions. Therefore, Alternatives A3 and A4 will address three separate categories of benefits: (a) CNI grants; (b) at-risk pregnant women grants; and (c) other W-2 paid employment positions.

8. The 2013-2016 W-2 agency contracts took effect on January 1, 2013. Since January of 2013, the total paid W-2 caseload has increased. In December, 2012, the total paid W-2 caseload was 13,537. In March, 2013, the total paid W-2 caseload was 14,513 (an increase of 7.2%). The CNI caseload, on the other hand, has decreased. From January, 2012, through December, 2012, the CNI caseload has ranged from 948 (December, 2012) to 1,084 (January, 2012). During this time period, the CNI caseload averaged approximately 7% of the overall paid W-2 caseload. Since January of 2013, the CNI caseload has steadily decreased (902 in January; 781 in February; and 712 in March). In March, the CNI caseload fell to 5% of the overall paid W-2 caseload.

9. Since the make-up of the caseload has changed since the new contracts took effect, it seems reasonable to use the average CNI caseload and benefit amount during the first three months of 2013 in the estimates. Therefore, the CNI monthly caseload is estimated at 798 and the monthly benefit amount is estimated at \$594. Expenditures for CNI grants would total \$5,688,100 annually.

10. Caseloads and expenditures for at-risk pregnant women have not fluctuated like the CNI caseload. The total caseload is approximately 0.25% of the total paid W-2 caseload, so even if there were fluctuations, it would not have a big financial impact on the W-2 program. Using the first three months of 2013 (the same time period as used for CNI caseloads and monthly benefit amount), the average at-risk pregnant women caseload is 35, and the average monthly benefit is \$507. Expenditures for at-risk pregnant grants would total \$212,900 annually.

11. As noted above, the overall paid W-2 caseload has increased since the new W-2

agency contracts began in January, 2013. It may be optimistic to assume that the caseload would begin to immediately decline at the rate of 1%, beginning with April, 2013. Alternatives A3 and A4 offer estimates based on a delay in the decline of the W-2 caseload.

12. The Committee could provide \$13,450,200 FED in 2013-14 and \$12,234,800 FED in 2014-15 to fund W-2 benefits during the 2013-15 biennium (Alternative A3). Under this alternative, the CNI expenditures and at-risk pregnant women expenditures total \$5,901,000 annually (as described in paragraphs #9 and #10). It is assumed that the subsidized employment caseload would stay the same as the March, 2013, caseload through June, 2013. As a result there would be no additional increase or any decrease of caseloads during the current fiscal year. The caseload would then decrease at the rate of 1% per month in each month of the 2013-15 biennium. Benefits funding for W-2 would total \$85,581,700 in 2013-14 and \$76,528,800 in 2014-15.

13. Alternatively, the Committee could provide \$15,760,400 FED in 2013-14 and \$14,394,500 FED in 2014-15 to fund W-2 benefits during the 2013-15 biennium (Alternative A4). Under this alternative, the CNI expenditures and at-risk pregnant women expenditures total \$5,901,000 annually (as described in paragraphs #9 and #10). It is assumed that the subsidized employment caseload would continue to grow through April (0.5% increase) and May (0.25% increase) of 2013, remain at May's caseload through June and July, then begin a slower decline through August (-0.25%) and September (-0.5%). Beginning with October, 2013, there would be a decline of 1% per month through June, 2015. Benefits funding would total \$87,891,900 in 2013-14 and \$78,688,500 in 2014-15.

14. The alternative funding options in this paper assume that the W-2 benefits caseload will peak and then begin to decrease in the near future. Under each alternative, the W-2 benefits caseload would decline in almost every month of the 2013-15 biennium. The only exception is in Alternative 4, where the decline would not begin until August of 2013, which is only one month into the biennium. These alternatives may be optimistic. For example, if no increase or decrease is assumed from the March, 2013, caseload throughout the 2013-15 biennium, an additional \$18.8 million in 2013-14 and \$26.6 million in 2014-15, for a total of \$45.4 million, would be needed. Therefore, should the caseload fail to decline during the 2013-15 biennium, DCF may have to exercise its option under the W-2 agency contracts to impose enrollment limits.

B. Payment of W-2 Benefits

15. Pursuant to the 2013-2016 W-2 agency contracts, W-2 agencies are no longer responsible for the payment of W-2 benefits. Instead, DCF pays W-2 benefits as a direct state activity and may impose enrollment limits on any geographic area at any time during the contract period.

16. The bill would codify the current practice of benefit payments by modifying current law to reflect that W-2 benefits are no longer part of the W-2 agency's responsibilities. The bill would: (a) eliminate a requirement that W-2 agencies return to DCF an amount equal to the total amount of benefits withheld for W-2 participants for missed work or education and training

activities; (b) eliminate references regarding the payment of monthly benefits for community service jobs, technical college placements, and transitional placements by W-2 agencies; and (c) specify that DCF, or an entity contracting with DCF, must pay pro-rated W-2 benefits for community service job placements depending on the number of hours per week the participant is placed in the job (Alternative B1).

17. A separate paper addresses DCF's initiative to move Wisconsin Shares subsidies to an electronic system that provides the subsidy to the parent, who then pays the child care provider. DCF has indicated that this initiative would begin with using an electronic benefit transfer (EBT) system with W-2 benefits and then expanding that system to include Wisconsin Shares subsidies.

18. DCF indicates that staff is currently studying the child care subsidy EBT system implemented in Kansas and is in the process of establishing various workgroups to discuss issues and policies involving Wisconsin's plan. One of the responsibilities of the workgroups is to draft a request for proposals to contract with a vendor that could implement an EBT system with W-2 benefits and then be able to expand the system to include the "parent pay" initiative under Wisconsin Shares. DCF currently anticipates that the EBT system for W-2 would be implemented in 2014-15.

19. In addition to Alternative B1, the Committee could require DCF to submit a W-2 EBT plan for approval under a 14-day passive review process before a contract is entered into with the selected vendor (Alternative B2). The Committee could require the EBT plan to include a description of how the EBT system would work, the cost of implementation of the EBT system, the ongoing costs of EBT system, and a description of the program integrity and fraud prevention plan associated with the EBT system.

20. Finally, the Committee could deny the Governor's proposal and require DCF to amend the 2013-2016 W-2 agency contracts to include a benefits allocation, based on the W-2 agency's share of the paid caseload, and require W-2 agencies to again be responsible for the payment of benefits (Alternative B3). Some would argue that in order to prudently determine eligibility and appropriate W-2 benefit payments, the W-2 agencies must have a financial stake in the process. In other words, if the benefit payments come directly from funding allocated to the W-2 agencies through their contracts, the W-2 agency would have more of an incentive to ensure that the individual is eligible, placed in the appropriate W-2 category (whether subsidized employment, case management, job-ready, etc.), and receiving the appropriate level of benefits. Without this incentive, the W-2 agencies may be more inclined to place participants in a paid placement, whether or not it is the most appropriate placement.

21. On the other hand, it could be argued that the W-2 agencies may have been too focused on their benefit allocations and may not have been placing participants in an appropriate subsidized employment placement in order to keep costs down. It may be that the W-2 benefits caseloads under the new contracts more accurately reflect the appropriate placements for W-2 participants.

ALTERNATIVES

A. W-2 Benefits Funding

1. Approve the Governor's proposal to reduce W-2 benefits funding by \$12,931,400 FED in 2013-14 and \$20,768,900 FED in 2014-15. W-2 benefits funding would total \$72,131,500 in 2013-14 and \$64,294,000 in 2014-15.

2. Modify the Governor's proposal to provide \$9,882,500 FED in 2013-14 and \$8,402,000 FED in 2014-15 to reflect actual caseloads and expenditures through March, 2013, and a 1% reduction in each month, beginning April, 2013, through June, 2015. W-2 benefits funding would total \$82,014,000 in 2013-14 and \$72,696,000 in 2014-15.

| ALT A2 | Change to Bill Funding |
|---------------|-----------------------------------|
| FED | \$18,284,500 |

3. Modify the Governor's proposal to provide \$13,450,200 FED in 2013-14 and \$12,234,800 FED in 2014-15. This alternative assumes the subsidized employment caseload would remain steady through 2012-13 and then begin to decline at 1% per month, beginning July, 2013. W-2 benefits funding would total \$85,581,700 (\$5,688,100 for CNI grants, \$212,900 for at-risk pregnant women grants, and \$79,680,700 for subsidized employment benefits) in 2013-14 and \$76,528,800 (\$5,688,100 for CNI grants, \$212,900 for at-risk pregnant women grants, and \$70,627,800 for subsidized employment benefits) in 2014-15.

| ALT A3 | Change to Bill Funding |
|---------------|-----------------------------------|
| FED | \$25,685,000 |

4. Modify the Governor's proposal to provide \$15,760,400 FED in 2013-14 and \$14,394,500 FED in 2014-15. This alternative assumes the subsidized employment caseload would increase in April (0.5%) and May (0.25%) of 2013, remain steady through June and July of 2013, begin to decline in August (-0.25%) and September (-0.5%), and then decline at 1% per month, beginning October, 2013. W-2 benefits funding would total \$87,891,900 (\$5,688,100 for CNI grants, \$212,900 for at-risk pregnant women grants, and \$81,990,900 for subsidized employment benefits) in 2013-14 and \$78,688,500 (\$5,688,100 for CNI grants, \$212,900 for at-risk pregnant women grants, and \$72,787,500 for subsidized employment benefits) in 2014-15.

| ALT A4 | Change to Bill Funding |
|---------------|-----------------------------------|
| FED | \$30,154,900 |

B. Payment of W-2 Benefits

1. Approve the Governor's proposal to codify the current practice of DCF, rather than a W-2 agency, making W-2 benefit payments by modifying current law to: (a) eliminate a requirement that W-2 agencies return to DCF an amount equal to the total amount of benefits withheld for W-2 participants for missed work or education and training activities; (b) eliminate references regarding the payment of monthly benefits for community service jobs, technical college placements, and transitional placements by W-2 agencies; and (c) specify that DCF, or an entity contracting with DCF, must pay pro-rated W-2 benefits for community service job placements depending on the number of hours per week the participant is placed in the job.

2. In addition to Alternative B1, require DCF to submit a W-2 EBT plan for approval under a 14-day passive review process before a contract is entered into with the selected vendor. Require the EBT plan to include a description of how the EBT system would work, the cost of implementation of the EBT system, the ongoing costs of EBT system, and a description of the program integrity and fraud prevention plan associated with the EBT system.

3. Deny the Governor's proposal. Instead, require DCF to amend the 2013-2016 W-2 agency contracts to include a benefits allocation, based on the W-2 agency's share of the paid caseload, and require W-2 agencies to again be responsible for the payment of benefits.

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