
**THE ALLOCATION OF TANF AND
CHILD CARE FUNDING
IN WISCONSIN**

Jon Peacock, Wisconsin Council on Children & Families

A Discussion Paper Prepared for the
The Brookings Institution Metropolitan Policy Program

August 2006

**THE BROOKINGS INSTITUTION METROPOLITAN POLICY PROGRAM
SUMMARY OF PUBLICATIONS 2006***

DISCUSSION PAPERS/RESEARCH BRIEFS

Making Sense of Clusters: Regional Competitiveness and Economic Development

The Earned Income Tax Credit at Age 30: What We Know

The Shape of Metropolitan Growth: How Policy Tools Affect Growth Patterns in Seattle and Orlando

TREND SURVEYS

Upstate School Reform: The Challenge of Regional Geography

One-Fifth of America: A Comprehensive Guide to America's First Suburbs

The New Safety Net: How the Tax Code Helped Low-Income Working Families During the Early 2000s

TRANSPORTATION REFORM SERIES

An Inherent Bias? Geographic and Racial-Ethnic Patterns of Metropolitan Planning Organization Boards

Principles for a U.S. Public Freight Agenda in a Global Economy

LIVING CITIES CENSUS SERIES

Katrina Index: Tracking Variables of Post-Katrina Reconstruction

* Copies of these and previous Brookings metro program publications are available on the web site, www.brookings.edu/metro, or by calling the program at (202) 797-6414.

ACKNOWLEDGMENTS

The WCCF is very grateful to The Brookings Institution for its support for our research and for publishing this report. We would especially like to thank Margy Waller for all of her encouragement and advice.

The author also owes thanks to my colleagues at WCCF, particularly Carol Medaris, WCCF's now-retired W-2 expert. Carol wrote Appendix D, conducted the interviews with W-2 agency administrators, and offered many thoughtful comments on the early drafts.

We are also grateful to the Center on Budget and Policy Priorities for doing most of the work in pulling together the data from state TANF spending reports, and to Wisconsin Legislative Fiscal Bureau staff. Thanks are also due to the Department of Workforce Development for its cooperation in helping us gather data and for constructive comments on the report that were provided by several of their W-2 and child care staff members.

Others who provided valuable assistance and comments on the drafts include Patricia DeLessio at Legal Action of Wisconsin, Pam Fendt at the UW-Milwaukee Center for Economic Development; Liz Green of the Dane County Human Services Department; and Victoria Selkove at the Economic Justice Institute, Inc. in Madison.

ABOUT THE AUTHORS

Jon Peacock is the research director at the Wisconsin Council on Children and Families (WCCF), which is engaged in research, education and advocacy on issues relating to children and families. WCCF is celebrating its 125th anniversary this year. Jon has MS and law degrees from the University of Wisconsin-Madison, and his work at WCCF focuses primarily on fiscal policy issues.

Comments on the paper can be directed to Jon Peacock at jpeacock@wccf.org.

The views expressed in this discussion paper are those of the authors and are not necessarily those of the trustees, officers, or staff members of The Brookings Institution.

Copyright © 2006 The Brookings Institution

EXECUTIVE SUMMARY

The Temporary Assistance for Needy Families (TANF) and child care block grants have given states tremendous flexibility in their spending choices. This paper examines the choices that have been made in Wisconsin, and the processes used to divide funds between different program areas and to allocate those funds across different areas of the state. Our analysis of the data and discussions with interested parties revealed the following:

- Substantial shifts in the spending of TANF funds have occurred since the inception of the Wisconsin Works (W-2) program. For example, child care accounted for 43.9 percent of TANF spending in Fiscal Year (FY) 2004 compared with just 13.9 percent in FY 1998.
- The substantial growth in child care spending, in conjunction with relatively flat federal and state funding levels that have not been adjusted for inflation, has led to the elimination of many TANF-funded programs. One result is a drop in TANF spending for work-related activities, from \$117.4 million in FY 2001 to \$32.4 million in FY 2004.
- Nearly three-fifths (58.5 percent) of total TANF, child care, and W-2 related funding is spent in three programs where the geographic allocation of funds is strictly a function of enrollment and cost: child care subsidies, the state earned income tax credit (EITC), and the Caretaker Supplement.
- Contracts with counties and private agencies for W-2 benefits, services, and administration accounted for just 22 percent of total TANF and W-2 related appropriations in state FY 2005. More than 70 percent of the W-2 spending is in Milwaukee County, although that county accounts for much smaller percentages of other programs for low-income families.
- Local agencies have substantial discretion in how they use W-2 funds. A Legislative Audit Bureau report in April 2005 revealed very large differences between agencies in the types of services they provide and their spending on those services.
- The state agency administering W-2 has recently made significant changes in how it administers W-2 and allocates funds to local agencies, especially in Milwaukee. The changes reflect an ongoing struggle to balance the goals of preserving W-2 agencies' flexibility, increasing accountability, holding down spending, and improving the outcomes for W-2 participants.

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	AN OVERVIEW OF WELFARE REFORM IN WISCONSIN.....	2
III.	TANF AND CHILD CARE SPENDING AND CASELOAD TRENDS	8
IV.	THE ALLOCATION OF FUNDS BETWEEN PROGRAM AREAS	17
V	GEOGRAPHIC ALLOCATIONS OF FUNDS.....	25
VI.	RECENT CRITIQUES OF AND CHANGES TO W-2.....	33
VII.	SUMMARY AND CONCLUSIONS.....	36
	APPENDICES.....	38

THE ALLOCATION OF TANF AND CHILD CARE FUNDING IN WISCONSIN

I. INTRODUCTION

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), enacted in 1996, gave states broad discretion in redesigning and operating their welfare programs. In addition to phasing out the Aid to Families with Dependent Children (AFDC) program, the new law replaced AFDC funding with a block grant program, Temporary Assistance for Needy Families (TANF). In addition, welfare reforms expanded funding for child care, which is distributed to states in another block grant, the Child Care and Development Fund (CCDF).

This paper examines the TANF and CCDF spending choices made by policymakers in Wisconsin. It analyzes how those spending choices have changed over time and describes the process and principles used in making the spending decisions.

II. An Overview of Welfare Reform in Wisconsin

A. Wisconsin Works (W-2)

Wisconsin was at the forefront of efforts to reform the federal welfare system. In 1993, the state legislature approved a bill calling for the repeal of AFDC and setting standards for a replacement program, which was to take effect by January 1, 1999. Governor Tommy Thompson used his partial veto authority to remove the standards, giving the administration a free hand to develop a new program, and he accelerated the process of doing so.¹

The Thompson administration took the lead in developing the AFDC replacement, which came to be known as Wisconsin Works, or W-2. The legislation to create W-2 was introduced in October 1995 and was passed in March 1996.² Its development and passage occurred during the only period in the last several decades when Republicans controlled both houses of the state legislature and the Governor's Office. That situation certainly influenced the shape of W-2. However, policymakers from both parties were actively involved.³ W-2 was initiated in March 1997 with pilot programs in two counties. It was rolled out statewide on September 1, 1997.

B. W-2 Overview

The W-2 program replaced AFDC with a non-entitlement program, which was founded on the premise that all able-bodied parents should work. Its basic components are summarized in Appendix A.

The state-level administrative duties are the responsibility of the Department of Workforce Development (DWD).⁴ However, Wisconsin has long delegated responsibility for implementing human service programs to the counties, and that is true of W-2. Nevertheless, local implementation of W-2 differs from most other human service programs in Wisconsin in several respects. First, other programs must follow typically extensive state standards and rules, whereas W-2 provides local agencies much more discretion. Second, W-2 is administered at the county level through contracts with both private and public agencies. As of May 2005, W-2 was being administered by private agencies in 22 of the 72 counties, including three for-profit agencies.⁵ In addition, eight Indian tribes or bands operate independent programs.⁶

¹ 1993 Wisconsin Act 99.

² 1995 Wisconsin Act 289 (signed on April 25, 1996).

³ The Democrats who were heavily involved in shaping the legislation included Rep. Antonio Riley of Milwaukee and David Riemer, Director of Administration for the City of Milwaukee.

⁴ The work focus of the W-2 program was underscored by locating the department in the newly restructured and renamed Department of Workforce Development (formerly known as the Department of Industry, Labor, and Human Relations), whereas AFDC had been administered in the Department of Health and Family Services.

⁵ Legislative Fiscal Bureau, *W-2 Agency Contracts*. Budget paper #851 (Madison: May 18, 2005).

⁶ The tribes receive TANF funds directly from the federal government, and the Wisconsin allocation is reduced by a like amount.

The goal of W-2 is to assign participants to either subsidized or unsubsidized jobs on the basis of their level of preparedness for employment. All are eligible to receive program services, which are intended to assist them in finding or retaining employment, increasing their skills or wages, and overcoming barriers to employment. However, those in unsubsidized placements are ineligible for any cash assistance, regardless of whether they are receiving any wages.

Before detailing the spending decisions of W-2, it is important to understand a few key principles, which are at the core of W-2 and underlie the ongoing debates about the program. These principles include:

A very strong “work first” emphasis with relatively little opportunity for participants to seek education and career training

Broad discretion for the local agencies administering the program to decide which services, if any, to provide for those who apply for W-2

A strong commitment to providing child care subsidies and the Earned Income Tax Credit (EITC) to all eligible low-income workers. There is no preference in the child care program for those formerly on welfare

Belief in the principle that private-sector agencies should be given the right to compete for W-2 contracts

C. The Combined Funding Streams in Wisconsin

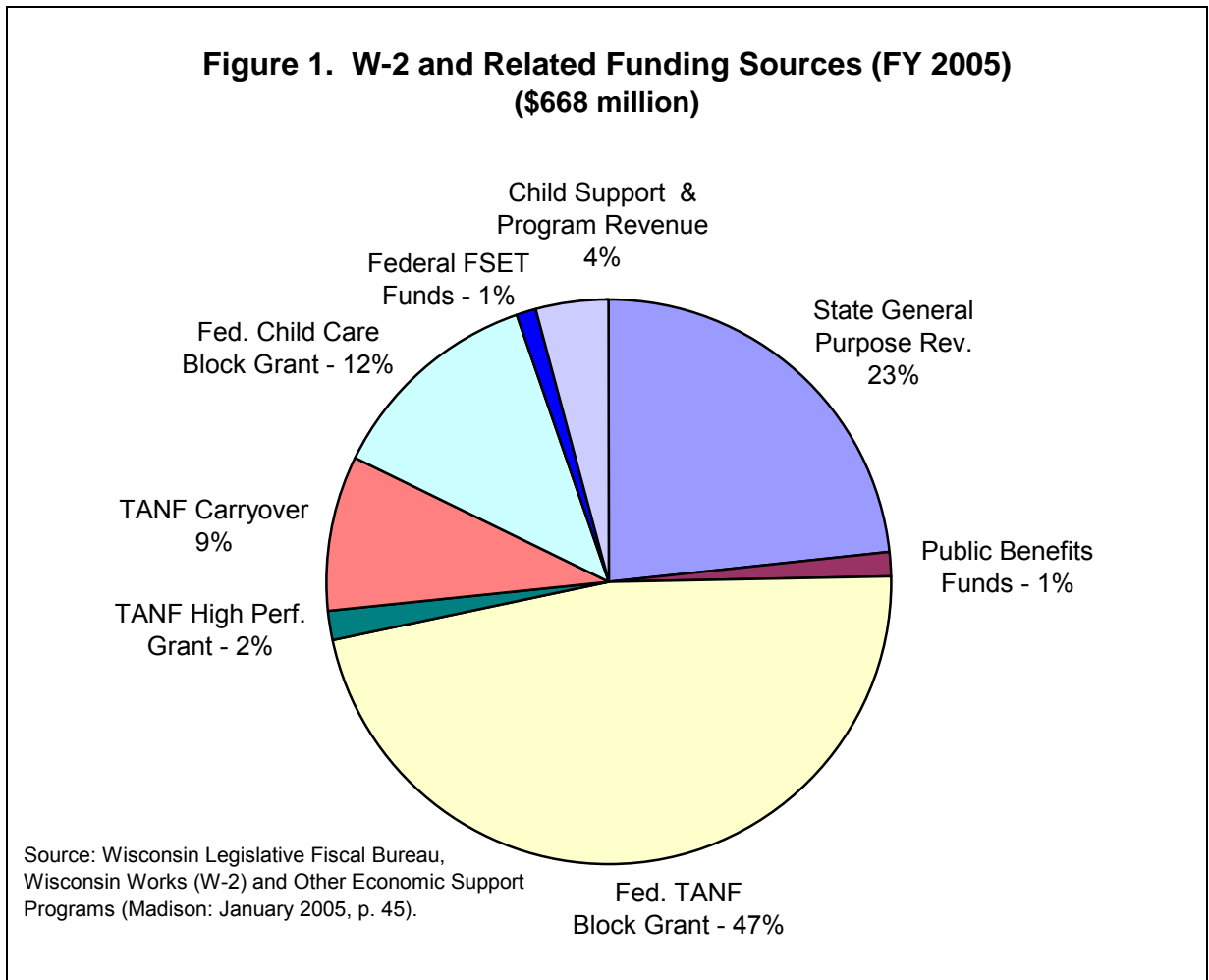
Federal law allows a portion of TANF funds to be transferred into the CCDF, and it also allows TANF dollars to be spent directly for child care. As a result, it is only natural for policymakers to consider the two block grants together, and that has clearly been the case in Wisconsin, even though W-2 and the Wisconsin Shares child care subsidy program were created as two distinct programs.

The consolidation of various W-2 funding sources extends beyond the TANF and child care block grants (CCBG). Documents prepared by the Legislative Fiscal Bureau and DWD consistently frame the spending choices in the context of a combined pot of revenue from several sources that are used to fund W-2 and other economic support programs.

Figure 1 shows the apportionment of the \$668 million in combined funding available in state FY 2005.⁷ Approximately 58 percent is federal TANF funding, including carryover from prior years and nearly \$11 million in TANF high performance bonus funds. The anticipated \$83.3 million from

⁷ Legislative Fiscal Bureau, *Wisconsin Works (W-2) and Other Economic Support Programs* (Madison: January 2005).

federal CCBG funds constitutes nearly 12.5 percent of the total. A third category of federal funding is \$8.1 million from the Food Stamp Employment and Training program (FSET).



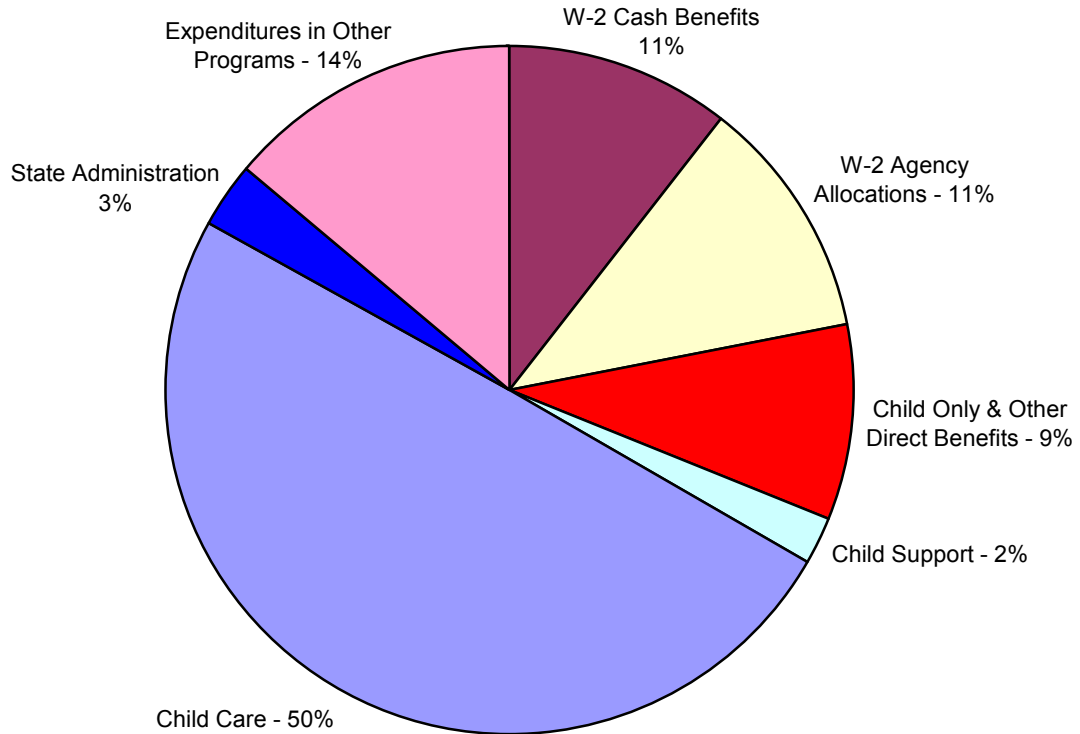
The combined funding pool includes three types of state revenue, which comprise 28 percent of the total funding. By far the largest of those is state general purpose revenue (GPR), which is devoted almost exclusively to the required maintenance of effort (MOE) funding under TANF and CCBG. It totals about \$155.6 million, or 23 percent of the state FY 2005 total. State program revenue of \$27.5 million, or 4 percent of the total, is primarily devoted to child support collections (\$25.6 million), which public assistance recipients are required to assign to the state. The other state revenue category is \$9.2 million from utility funds earmarked for public benefits, which the state began using in FY 2005 to help finance the state EITC.

- Figure 2 illustrates the allocations of \$649 million in state FY 2005 from the combined revenue sources shown in Figure 1.⁸ A more detailed breakout of the appropriations in the 2003-2005 biennium can be found in Appendix B. The following are a few key points from the FY 2005 appropriations data:
- Child care programs account for one-half of total W-2-related appropriations, even though the child care block grant contributes just 12 percent of total funding. Approximately 91 percent of child care spending is for the Wisconsin Shares child care subsidy program.⁹
- The next largest category, constituting 14 percent (\$89 million), is “expenditures in other programs,” which is the TANF funding used outside W-2 and in other agencies. This is primarily composed of funding for the state EITC (\$59.5 million), the Social Services Block Grant transfer used for Community Aids (\$13.4 million), and the Milwaukee child welfare system (\$10.3 million).
- Only 11 percent of the total is devoted to W-2 cash benefits for work, and 9 percent to “child only and other direct benefits” (primarily for the caretaker supplement and kinship care, and a small amount for emergency assistance).
- Another 11 percent is designated for the contracts with W-2 agencies for services and administration.

⁸ The 2003-05 budget bill that was signed into law in 2003 appropriated virtually all of the available TANF funds, but subsequent budget changes resulted in adjusted appropriations that are \$19 million below the anticipated funding level, leaving a modest reserve to carry into the next biennium.

⁹ Spending for the Wisconsin Shares child care subsidies reached \$293 million in state FY 2005, which was roughly 91 percent of the combined spending for child care in the TANF and CCDF related appropriations.

Figure 2. FY 2005 Appropriations for W-2 and Related Programs (\$649 million)



Source: WCCF's analysis of Legislative Fiscal Bureau data

D. State and Federal Data Sources

The majority of the analyses in this paper use two data sets to track TANF and child care spending in Wisconsin. The first, illustrated in Figure 4 below, is based on state reports to the federal Department of Health and Human Services (DHHS) on TANF spending, including both the federal funds and state MOE. The second data set is from the annual state appropriation amounts for W-2 and related programs, as reported by the Legislative Fiscal Bureau, illustrated in Figures 2 (above) and 3 (below). Although there are significant differences between these two data sources, the expenditure trends they illustrate are consistent.

The report also uses aggregate W-2 spending figures compiled by the Legislative Audit Bureau, as shown in Table 1. The Audit Bureau data are specifically for W-2 spending, exclusive of other TANF and child care expenditures, and the bureau does not make any distinctions between the funding sources. The data do, however, capture the unrestricted profit earned by W-2 agencies in the early years of the program.

Table 1. Total Reported W-2 Expenditures^a
(Sept. 1997 through June 2004)

Spending Categories	(Millions)	Percent
Cash benefits	\$ 445.3	29.7
Work activities	334.3	22.3
Eligibility determination	103.8	6.9
Local administration	113.6	7.6
Food stamp program services	42.3	2.8
Education activities	28.8	1.9
Skills training	27.1	1.8
Post-employment services	27.0	1.8
Case management	14.7	1.0
Transportation	11.8	0.8
Other primary contract services	1.4	0.1
Additional contract services	87.2	5.8
Unrestricted profits	77.9	5.2
Community reinvestment funds	71.9	4.8
State administration	75.2	5.0
Start-up contracts	34.7	2.3
TOTAL (1997–2004)	\$ 1,497.0	100.0

^a *Wisconsin Works (W-2) Program*, Legislative Audit Bureau, April 2005, pp. 16-18.

The data sources have several advantages and disadvantages, some of which are outlined in Appendix C. The chief advantage of using the expenditure figures reported to DHHS is that spending is divided into various federally defined categories, which facilitates comparisons across states. In addition, those data show actual expenditure levels, rather than spending estimates that are represented by the legislated appropriation levels.

The largest drawbacks of using the DHHS data are that the most current reports are for federal FY 2004, and the spending categories do not always match up clearly with state programs. In addition, the differences between the federal and state fiscal years occasionally result in federal data that appear misleading from a state perspective. For example, the numbers reported to DHHS suggest that there was a surge in TANF spending for the EITC in Wisconsin in federal FY 2001 (see Figure 3). However, the increase was the result of counting two years of EITC expenditures in the same federal fiscal year.

The figures from the Legislative Fiscal Bureau allow more current assessments because they include the funding levels approved by the governor and legislature in state fiscal years 2005 and 2007. However, they represent appropriations rather than actual spending, and they combine several TANF, child care, and W-2 funding sources. These spending categories are generally more detailed and transparent, but the figures are not comparable across states.

III. TANF AND CHILD CARE SPENDING AND CASELOAD TRENDS

Since the inception of W-2 and Wisconsin Shares in 1997, policymakers have made scores of changes to the two programs, many of which are outlined in the timeline in Appendix D. In general, the amendments in W-2 policies have been relatively modest and have had little effect on the core principles and structure of the program. Proponents of W-2 would argue that this is because it has been extremely successful. The program's detractors contend that it reflects an unwillingness by W-2's authors to concede the significant flaws in the original design of the program.

The child care subsidy program has been amended in more significant ways, including an increase in the income eligibility ceiling, a decrease in co-pays, and expansions to the categories of children who can be served and to the work activities that make parents eligible for the program.¹⁰

Most of those changes were proposed by Governor Thompson in 1999, and they enjoyed broad bipartisan support. Although politicians of both parties were often able to find common ground in responding to the changing needs and opportunities in child care funding, there has seldom been consensus on changes to the basic structure of W-2.

A. Spending Trends

Although the statutory changes in W-2 policies were not significant, shifts in the TANF and CCBG appropriations and spending were very substantial. Figure 3 illustrates the trends since 1999 in spending choices for W-2 and related programs, using the Legislative Fiscal Bureau's appropriations data.¹¹ The spending numbers for state FY 2007 are the appropriations in 2005 *Act 25*, after factoring in gubernatorial vetoes.

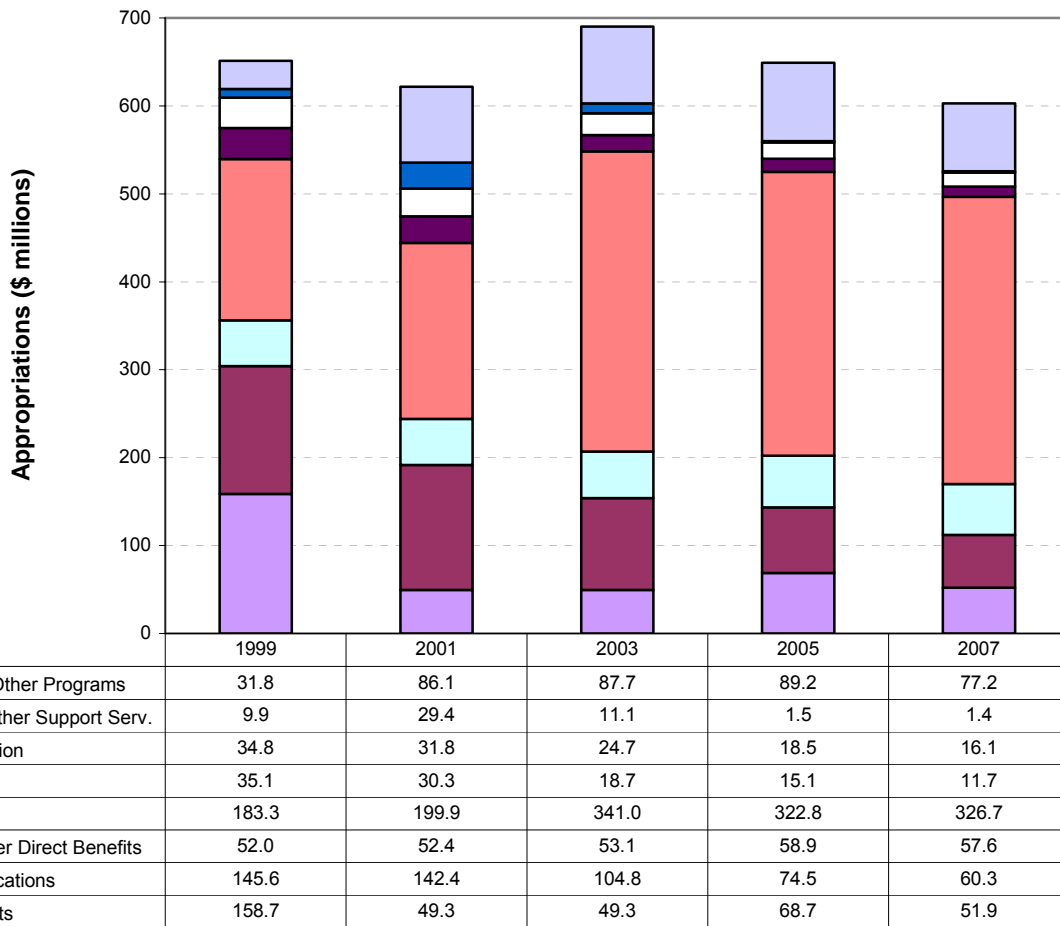
To help make Figure 3 easier to interpret, it focuses on every second, or odd-numbered, fiscal year. The chart uses the second year of each biennium rather than the first because the second year is typically more representative of the choices made during each biennial budget process.

The spending categories are derived from the general groupings used for many years by the Fiscal Bureau. The category "W-2 agency allocations" includes funding for local administrative costs, as well as for case management and other services provided to W-2 participants by the local agencies.

¹⁰ 1999 Wisconsin Act 9 (see Appendix C).

¹¹ All of the figures are from documents prepared each biennium by the Legislative Fiscal Bureau, except for the child support appropriation in FY 2007. For some reason, the Department of Administration and LFB decided not to include child support with the W-2 related spending in the 2005-2007 budget. For purposes of consistency with prior budgets, we added child support for FY 2007.

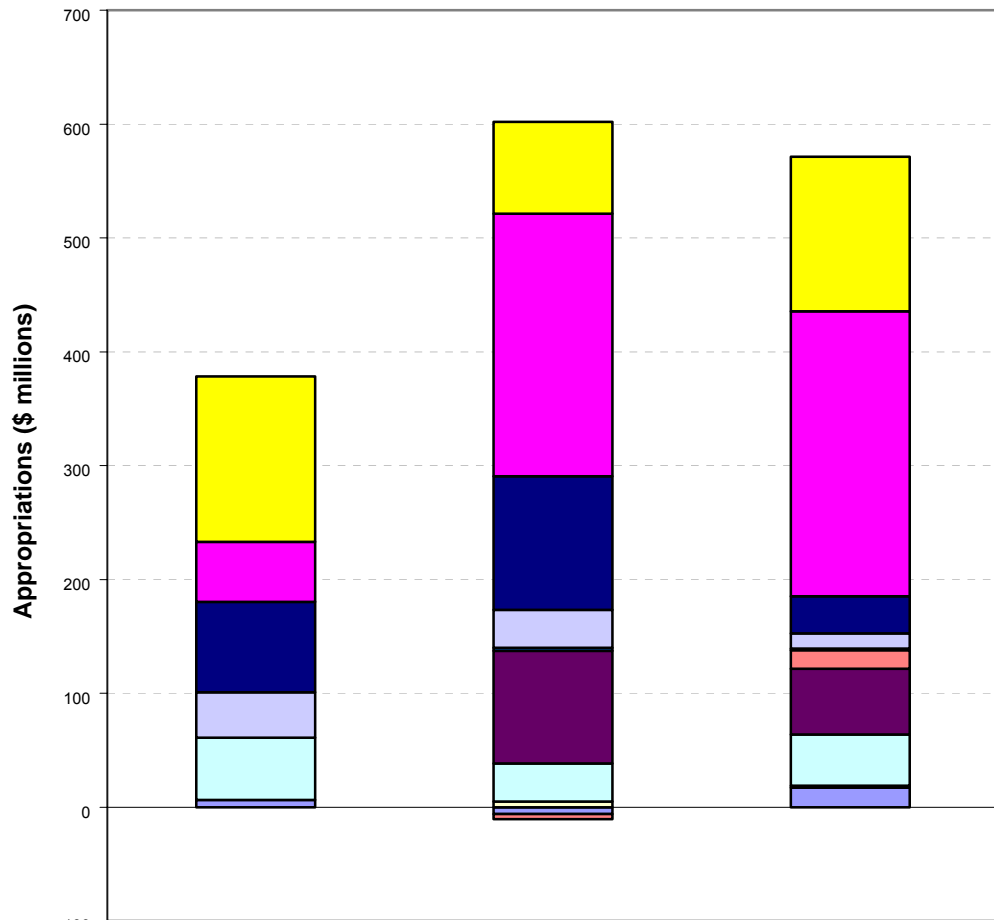
**Figure 3. TANF and W-2 Related Appropriations per WI Legislative Fiscal Bureau
All funding sources, FY 1999 to FY 2007**



Source: Wisconsin Legislative Fiscal Bureau (except for the child support appropriation in FY 2007)

Figure 4 paints a similar picture, using TANF data submitted to DHHS. Child care expenditures are smaller than in Figure 4 because they do not include the CCBG funding (although they do include TANF transfers into the CCDF). Note also that W-2 cash benefit dollars are higher than the cash assistance dollars in Figure 3. The former sums the W-2 cash benefits and child-only benefits, whereas Figure 4 keeps them separate.

**Figure 4. TANF Spending and Transfers Per WI Reports to HHS
FY 1998 to FY 2004**



	1998	2001	2004
■ Cash Assistance	145.4	80.7	135.7
■ Child Care	52.8	230.7	250.6
■ Work-Related Activities	79.4	117.4	32.4
■ Transfer to SSBG	39.7	33.3	13.4
■ Pregnancy Prevention	-	2.6	1.2
■ Two-Parent Formation	-	(4.6)	16.4
■ Tax Credits	-	99.1	57.9
■ Systems and Administration	54.7	33.2	45.0
■ Transportation and other Support Services	-	5.1	1.5
■ Authorized under Prior Law	-	-	-
■ Other Nonassistance	6.4	(6.1)	17.2

Source: Center on Budget and Policy Priorities, based on WI data submitted to DHHS

Figures 3 and 4 illustrate the evolution of funding allocations through several distinct stages:

- *Stage 1 (FY 1997–1999)*: The initial stage of W-2 was marked by large allocations to the W-2 agencies for the anticipated cash assistance caseloads and for local administration and services for W-2 participants. This first stage of W-2’s evolution might be called the “surplus buildup” phase because the state initially overestimated the enrollment in W-2 and Wisconsin Shares, resulting in a substantial accumulation of TANF funds and large local agency profits. By the end of the 1997–1999 contract period, local agencies had accumulated \$65.1 million in unrestricted profits and \$66.5 million in community reinvestment funds.¹²
- *Stage 2 (FY 2000 and FY 2001)*: By the end of state FY 1999, the state expected to carry forward a TANF balance of about \$130 million from the previous years.¹³ In light of that balance and lower-than-anticipated enrollment in Wisconsin Shares, the governor and legislature decided in the 1999–2001 budget bill to expand eligibility for the child care subsidies and to lower co-pays. They also initiated several new services and programs related to W-2, including substance abuse treatment and literacy services, the Workforce Attachment Fund, and Community Youth Grants. In addition, the governor and legislature used TANF funds to help finance several programs, including roughly \$50 million per year for the EITC, approximately \$10 million annually for the Milwaukee child welfare system, and \$3.7 million for Head Start. Much of the TANF funding used for these new purposes replaced state funding, thereby freeing up GPR funds for tax cuts enacted in the 1999–2001 budget bill.
- *Stage 3 (FY 2002 to date)*: This stage might be characterized as “back to basics.” The TANF balance was quickly spent down because of the measures enacted in the 1999–2001 budget, and in the next biennium, the state began cutting back some of the new W-2 services. In each subsequent budget, the cuts have gone deeper because far fewer TANF dollars have been available from previous years, the child care caseload has grown rapidly, the cash assistance caseload rebounded, and the revenue sources were not adjusted for inflation. Some of the programs and services that have been cut include child care quality initiatives, state and local administration, transportation services, the Workforce Attachment and Advancement program, and the cash assistance appropriation (see Table 2). For the most part, the use of TANF to replace GPR funds for programs such as the EITC was continued. However, to reduce the extent of the cuts needed to balance the W-2 and TANF budgets in the 2005–2007 biennium, the governor and legislature restored approximately \$6 million per year of the state GPR funds that had previously been replaced with TANF funding (and a Governor Doyle veto will indirectly increase that amount).¹⁴

¹² Legislative Audit Bureau, *Wisconsin Works (W-2) Program* (Madison: April 2005).

¹³ The \$130 million TANF carryover from state FY 1998 does not include unspent amounts for W-2 benefits and services that were obligated in contracts with the local agencies, although some of that unspent funding was later recovered by the state.

¹⁴ A partial veto of the 2005-2007 budget bill (2005 Act 25) decreases TANF funding for the EITC by \$4.3 million per year, to free up funding to restore support for several appropriations for programs relating to child care quality improvement. The reduction in TANF funding for the EITC will result in an increase in the sum

Table 2 illustrates how the growth in child care subsidies and the use of TANF for the EITC has squeezed other areas of TANF spending and has led to many cuts since state FY 2001. The table selectively includes the larger cuts, rather than all TANF and W-2 appropriations. It includes the appropriations for W-2 cash benefits, even though spending in that area is up slightly since 2001, because there was a significant cut in the 2005-2007 budget. Since Table 2 does not reveal the longer-term trends in cash benefit spending, it should be noted that the appropriation for state FY 2007 is 67 percent less than the amount appropriated for W-2 cash benefits in state FY 1999.

Table 2. Selected Cuts in TANF-Related Programs (2001–2007)

	Appropriations			2001-07 % change
	SFY 2001	SFY 2004	SFY 2007	
W-2 Cash Benefits	\$49,309,600	\$76,772,300	\$51,930,000	5
W-2 - Local Admin. and Services	128,433,800	66,439,400	60,297,100	-53
W-2 - State Administration	27,454,400	18,484,600	16,060,000	-42
SSBG Transfer to DHFS/Community Aids	18,086,200	13,420,500	13,420,500	-26
Workforce Attachment	10,000,000	0	0	-100
Community Youth Grants	7,500,000	300,000	300,000	-96
Early Childhood Excellence Initiative	7,500,000	2,500,000	0	-100
Agency Performance Bonuses	7,413,100	0	0	-100
Work-Based Learning Programs	6,084,500	0	0	-100
Partnership for Full Employment	3,513,300	0	0	-100
Transportation	2,000,000	0	0	-100
Adolescent Services/Pregnancy Prevention	1,808,300	1,367,100	0	-100
Literacy Initiative	1,454,100	0	0	-100
Aid to Milwaukee Public Schools	1,410,000	0	0	-100
Substance Abuse Services	1,000,000	0	0	-100
Nutritional Services	1,000,000	0	0	-100
Immunization	1,000,000	0	0	-100

Source: WCCF analysis of Legislative Fiscal Bureau data

sufficient state GPR spending for the tax credits. The governor's veto partially offsets the effect of an amendment approved by the Joint Finance Committee that cut about \$17 million of GPR funding from the amounts recommended by the governor.

The evolution in the funding choices can be explained, in part, by reviewing the enrollment trends for W-2 and the Wisconsin Shares child care subsidy program. Figure 5 illustrates the cash caseload, dating back to August 1997, the month before W-2 began. At that time, there were almost 35,000 participating families (including 457 kinship care families). That was already a dramatic drop from the early 1990s, when the AFDC caseload stood at approximately 80,000 per year.¹⁵

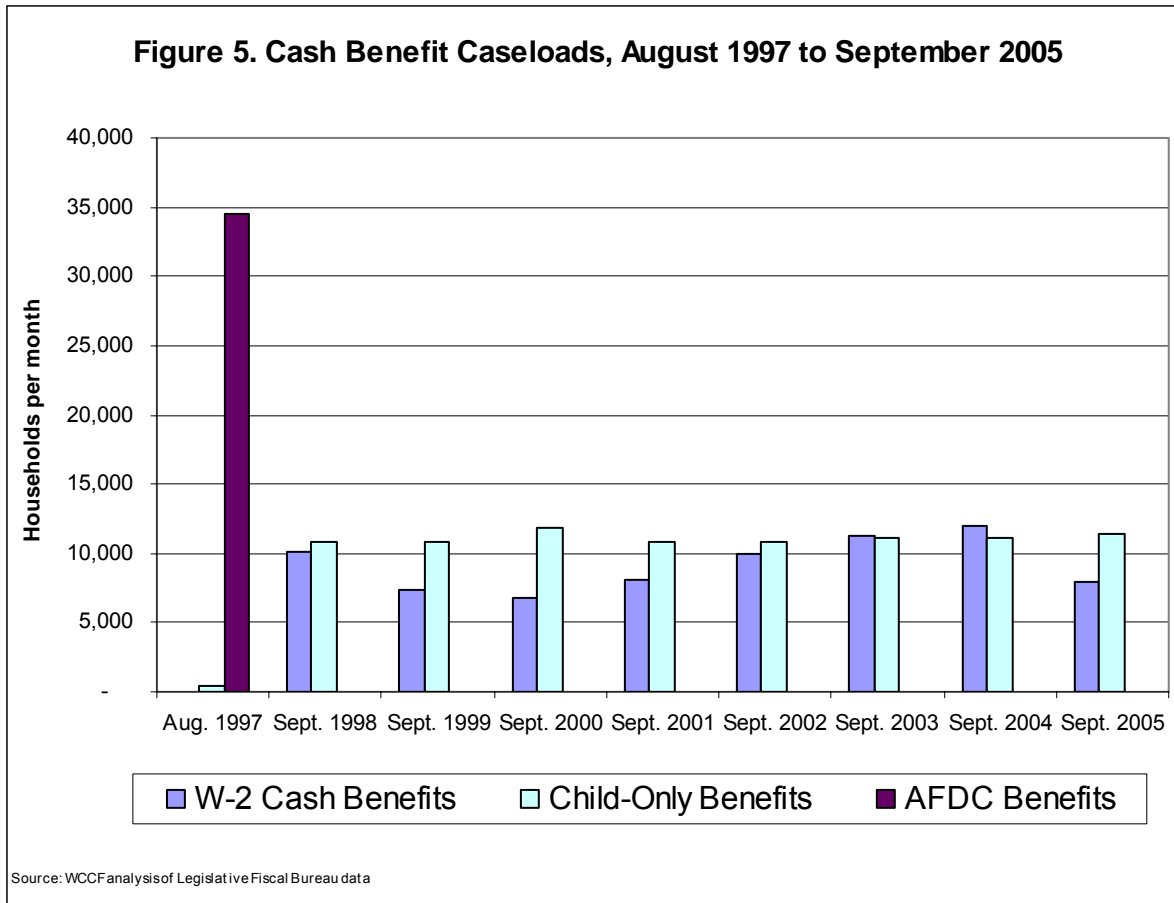
From 35,000 in August 1997, the cash assistance caseload dropped to a little below 18,300 by September 1999, a decline of nearly 48 percent.¹⁶ The caseload climbed in each of the next five years, reaching nearly 23,200 in September 2004, or an approximately 27 percent increase from four years earlier, yet still nearly 34 percent below the August 1997 level.¹⁷ Although four-fifths of the caseload is in Milwaukee County, the growth in the W-2 cash assistance cases over the last several years has been somewhat faster outside Milwaukee.¹⁸

¹⁵ Legislative Fiscal Bureau, *Wisconsin Works (W-2) and Other Economic Support Programs*.

¹⁶ The drop in caseload shown in the Figure 6 is less dramatic than was often claimed by W-2 proponents in the early years of W-2 because those claims focused just on the employment cases and improperly excluded child-only cases. Comparing those W-2 figures to the total AFDC caseload was misleading because the AFDC numbers also included child-only cases.

¹⁷ Wisconsin Legislative Fiscal Bureau, *Wisconsin Works (W-2) and Other Economic Support Programs*.

¹⁸ From September 1999 through September 2004, the W-2 cash caseload (which excludes child-only cases) increased 82 percent outside Milwaukee County, compared with an increase of 58 percent in Milwaukee County. The primary reason was the rapid growth outside Milwaukee in the number of W-2 participants receiving caretaker-of-infant benefits.



The first several years of W-2 coincided with a period of economic prosperity.¹⁹ The growth in cash benefit cases since 2000 has coincided with an economic downturn, but growth has continued well past the end of the recession. There are several possible reasons for the caseload growth after 2002, including a substantial drop in 2004 in the number of people assigned to the job-ready category (discussed further below).²⁰

Figure 6 provides a more detailed look at the cash caseload since January 1999, showing the quarterly average for the W-2 cash benefits and the child-only cases. The W-2 cash benefits are received primarily by participants in employment placements, but they also include parents of infants younger than 12 weeks. The number of W-2 cash benefit cases dropped to only about 6,600 households in mid-2000, but rebounded to about 12,500 in the second quarter of 2004. Since then, DWD has been pushing the W-2 agencies to reduce the cash assistance caseload, and the figure dropped to 8,385 in July 2005.

¹⁹ Robert Lerman, in *How Did the 2001 Recession Affect Single Mothers?* (Washington: Urban Institute, 2005), reports that from 1996 to 2000 the real hourly wage of single mothers increased by 10 percent at the median level and by 14 percent at the 25th percentile.

²⁰ The Legislative Audit Bureau notes on page 34 of its April 2005 report that the number of people in the job-ready category declined from 4,068 in 2003 to 1,283 in the first six months of 2004, with almost the entire decline occurring in Milwaukee County.

Governor Doyle's plan for balancing the state's TANF spending and revenue in the 2005–2007 biennium is premised on reducing W-2 cash assistance cases to an average of 7,500 from January 1, 2006, through June 30, 2007. DWD believes that the reduction can be achieved by placing more W-2 participants in unsubsidized jobs more quickly and with the help of an improving economy. In addition, the department is promoting earlier identification of individuals with disabilities and better advocacy to help them receive Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI) benefits.

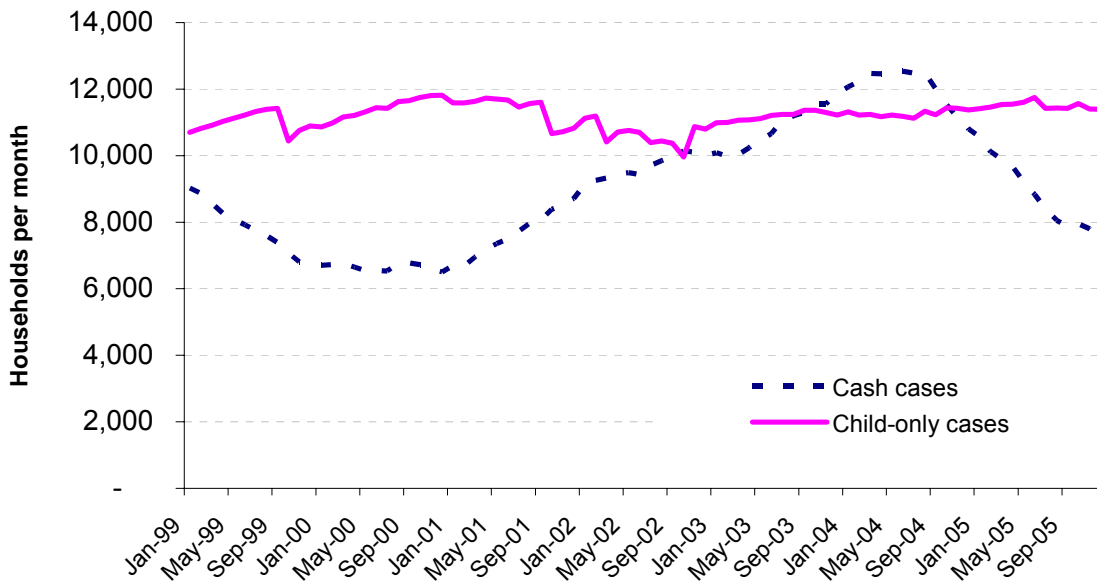
The child-only cases divide roughly evenly between two categories:

- Kinship care, which provides payments of \$215 per month to certain individuals caring for relative children (replacing the AFDC benefits that had been paid to nonlegally responsible relatives who cared for dependent children); and
- The SSI caretaker supplement, which is paid to recipients of SSI who have dependent children.²¹ The caretaker supplement caseload averaged 6,263 in 2004, which constituted about 56 percent of the child-only cases.

Figure 6 illustrates that the child-only caseload has held relatively steady, remaining between 10,400 and 11,800 during the last six years. For most of that period, child-only cases substantially exceeded the W-2 cash assistance caseload. However, after the steady growth in W-2 work participants, which began in mid-2000, the W-2 caseload surpassed the child-only caseload by late 2003. That shift appears to have been a short-term change, because of the downward pressure being applied to the W-2 cash assistance caseload. Figure 6 also illustrates the sharp drop in the W-2 cash assistance caseload since summer 2004.

²¹ SSI recipients are ineligible to participate in W-2. The caretaker supplement benefit is now \$250 per month for the first eligible child and \$150 per month for each additional eligible child.

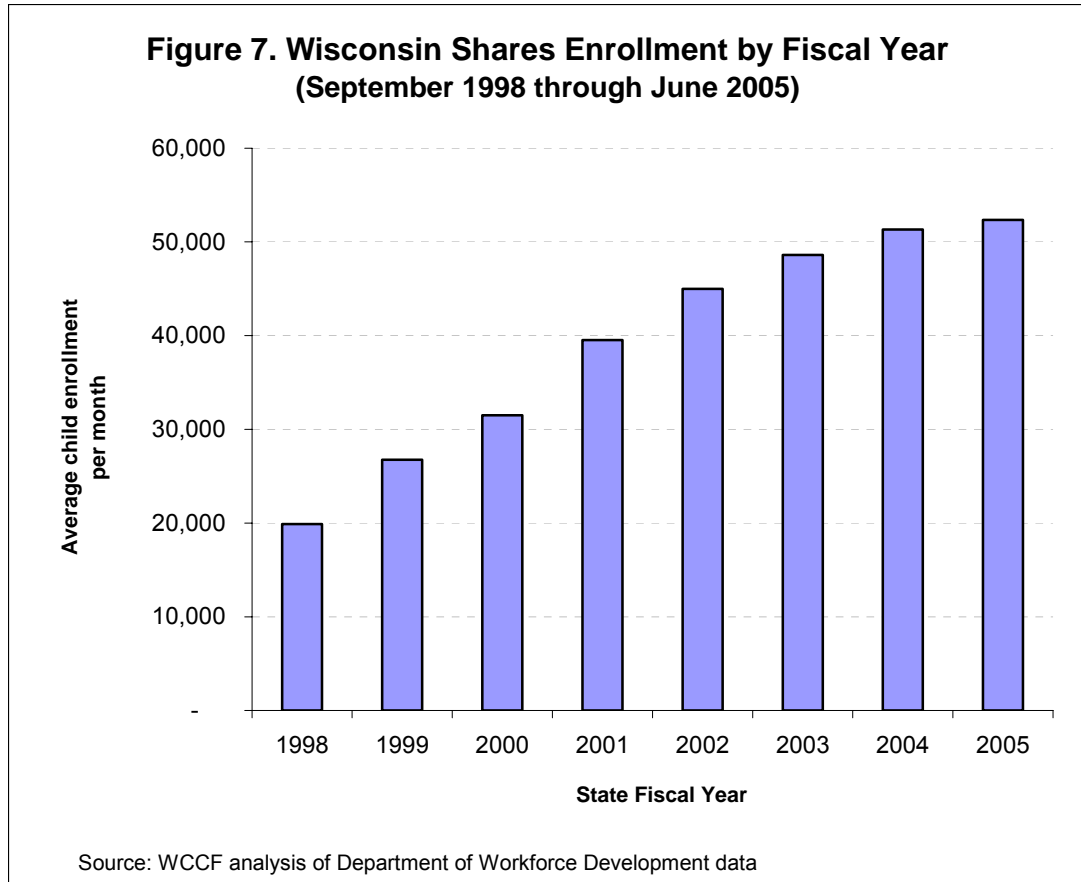
**Figure 6. W-2 and Child-Only Cash Caseload
(January 1999 through December 2005)**



Source: WCCF analysis of Department of Workforce Development data

Figure 7 shows the growth in the number of children enrolled in the Wisconsin Shares child care subsidy program each month (averaged for each state fiscal year), from the program's inception in September 1997 through June 2005. For state FY 2005, the average monthly enrollment was 52,341 children, an increase of 163 percent compared with the average in FY 1998. Spending for the child care subsidies increased 249 percent over the same period, surpassing \$293 million in state FY 2005.²²

²² Based on preliminary Department of Workforce Development figures on the cost of the subsidies, exclusive of other components of Wisconsin Shares, such as administration. The expenditures were approximately \$3 million over budget.



The portion of child care spending financed with TANF dollars has increased even more dramatically. From federal FY 1998 through FY 2004, TANF funds spent on child care (directly or transferred into the CCDF) grew 375 percent. Most enrollees in Wisconsin Shares are not in W-2; therefore, the substantial drop in W-2 enrollment after the program's inception has had no bearing on the number of families receiving child care subsidies. More than two-fifths of Wisconsin Shares enrollees are above the income ceiling for W-2 participation (115 percent of the federal poverty line), and many of the subsidy recipients below that level are workers who do not participate in W-2.²³ In 2000, the Legislative Audit Bureau found that only 15.3 percent of families receiving child care subsidies were enrolled in W-2, and that percentage has almost certainly declined since then as use of the subsidy program has grown.²⁴

²³ The Department of Workforce Development's quarterly data on Wisconsin Shares show that in the first quarter of 2005 almost 42 percent of the participating families had incomes above the W-2 ceiling of 115 percent of the federal poverty level.

²⁴ Legislative Audit Bureau, *Wisconsin Shares Child Care Subsidy Program* (Madison: January 2001).

IV. THE ALLOCATION OF FUNDS BETWEEN PROGRAM AREAS

A. The Procedures Used in Making Spending Choices

The procedures to allocate TANF and CCDF funds among particular program areas are summarized below. As a practical matter, these procedures have created two powers in the spending decisions for W-2, child care, and TANF funding: the Joint Finance Committee and the executive branch.

The governor and DWD, which is a cabinet agency, have worked closely on W-2, child care, and other TANF spending. Together, they play the most important role in the budget process, for two reasons. First, the biennial budget plan that is developed and introduced by the executive branch generally sets expectations and defines the terms of the debate. As a practical matter, it is difficult for the legislature to cut funding for popular programs if the funding was in the governor's budget; and it can be even more difficult, especially during the recent lean years, to add funding that the governor's budget does not include.

Second, although the legislature can and does make significant changes to the executive branch's budget, the governor gets the last word. Governors in Wisconsin possess an extremely broad and powerful partial veto authority. No Wisconsin governor has had a budget veto overridden by the legislature in nearly 20 years, despite the well over 1,000 vetoes during that period. Although the governor's veto authority is generally limited to subtracting items from the legislature's budget, there have been occasions, including the 2005–2007 budget bill, when governors have increased appropriations.²⁵

In the legislature, the Joint Finance Committee, which includes eight legislators from each house, plays the most important role. The committee reshapes the governor's budget, and their changes are typically the blueprint for the budget bills ultimately approved by the full legislature. That pattern has been particularly true in spending on child care and TANF funds, where the committee's decisions have almost invariably been approved by the legislature without significant changes.

Beyond budget bills, almost no legislation has been approved affecting W-2 and child care spending. In March 1999, at a time when Wisconsin had a very large TANF balance, the General Assembly passed a bill to shift spending for the refundable portion of the EITC from general fund dollars to TANF funding. The Senate held up the bill on the grounds that the decision should be made as part of the broader budget deliberations on TANF and W-2 spending.

²⁵ The governor can sometimes selectively veto digits in a way that creates a larger appropriation, or at least a smaller cut. In 2005 Act 25, he used his partial veto authority to indirectly increase GPR spending by vetoing \$4.3 million per year of TANF funds for the EITC. This was done to free up some TANF funding for child care, while in effect increasing the amount of state funds that must be spent from the sum sufficient GPR appropriation of the EITC. In cutting certain child care infrastructure investments, he carefully vetoed certain elements in a way that leaves an appropriation of \$5.4 million per year, rather than cutting it from \$7.5 million to \$1.4 million.

Several sections of Wisconsin statutes enable the executive branch and Joint Finance Committee to reallocate funds or to appropriate reserve funds without the approval of the full legislature. The allocations must be proposed by the DWD and approved by the Finance Committee, either “passively” or by a vote at a meeting of the committee.

In January 2005, the committee reviewed such a request from DWD to use \$15.7 million of TANF funds held in reserve for cash benefits under the W-2 program, and to tap \$4.8 million in TANF high performance bonus funds that the department sought to use for child care quality improvement programs. The committee rejected the latter, contending that the \$4.8 million expenditure could not be justified when the state was facing a large TANF deficit in the 2005–2007 biennium.

The Finance Committee approved just part of the request for funds to local W-2 agencies to fill the shortfall in funding for cash benefits and W-2 services. It approved the use of \$4.2 million to fund the W-2 agencies outside Milwaukee County but withheld approval to use the other funds owing to concerns over a few highly publicized cases of private W-2 agencies in Milwaukee County that misappropriate funds.²⁶ The committee requested a plan from DWD on how the Milwaukee County W-2 agencies would use the funds. The department submitted that plan in March 2005, and in mid-April, the committee approved the remaining \$11.5 million for cash benefits and services.

B. The Fiscal Context

In the late 1990s when W-2 implementation began, the economy was very strong, state tax revenue was growing rapidly, and reliance on public assistance was declining. Elected officials were able to pass large tax cuts, even as they were increasing spending by funding such programs as BadgerCare, the health insurance program for low-income working families.²⁷

When the legislation creating W-2 was being considered in the 1995–1996 session, politicians on both sides of the political aisle argued that an effective alternative to AFDC might require increased spending. However, the early years of W-2 quickly erased most memories of that sort of talk. After lower-than-anticipated participation in W-2 and Wisconsin Shares resulted in a very large balance of untapped TANF funds by the end of 1998, the Thompson administration and legislators began to look for ways to use those funds to reduce state general fund spending and indirectly to increase the size of the tax cuts approved during the 1999 session.

The large TANF “welfare dividend” not only allowed legislators and the Thompson administration to reduce state spending, but also contributed to a fundamental shift in the political

²⁶ One of the Milwaukee W-2 agencies, the Opportunities Industrialization Council, abruptly closed in February 2005, after a string of financial improprieties and scandals, including the revelation of a kickback scheme involving a former state senator.

²⁷ BadgerCare was enacted in late 1997, but the program did not start until July 1999.

mindset about TANF spending. It helped engender a widely held view that Wisconsin would long be able to implement W-2 and the child care subsidies with the minimum amount of state funding required by federal law.

State budgets began to take a sharp turn for the worse in 2001, however, and participation in W-2 work placements began a long climb upward. Child care enrollment and spending, which began somewhat more slowly than anticipated in 1997-1998, climbed fairly steadily during most of the history of Wisconsin Shares. These factors, coupled with the use of TANF funds for the EITC and other programs outside the W-2 and DWD budgets, created a structural deficit in the TANF budget. However, the fiscal challenges facing Wisconsin and other states make it extremely difficult to entertain the possibility of restoring significant general fund dollars for such programs as the EITC.

Of course, another critical fiscal consideration is that the TANF block grants remain at the same level of funding that states received in FY 1997. If block grants had been indexed for inflation each year since 1997, states would receive about 29 percent more in FY 2007, and Wisconsin's block grant would be about \$91 million higher that year.²⁸

C. The Political Context for TANF and Child Care Spending Choices

Since W-2 was enacted, Republicans and Democrats have nearly always shared control. The governor's office was occupied by Thompson, a Republican, from 1987 through 2000, and he advanced a broad range of innovative measures changing the welfare system during his 14 years as governor, from which W-2 emerged.

Republicans gained the majority in the Wisconsin Assembly in fall 1994 and have steadily expanded their margin ever since. During their first session in control of the assembly, Representative John Gard, a Republican from a rural district in northeast Wisconsin, chaired the Welfare Reform Committee and was one of the prime movers of the W-2 legislation. He has continued to be a key player in debates about TANF and child care issues in several capacities, including co-chair of the Joint Finance Committee from late 1997 through 2002, and as Assembly Speaker since the beginning of 2003.

Democrats regained control of the state senate in a 1996 recall election, after being out of power for a little over a year, including the period when W-2 was developed and approved by the legislature. Their point person on welfare reform issues was Senator Gwendolynne Moore, a former AFDC recipient from Milwaukee who served on the Joint Finance Committee from 1999 through 2004, when she won election to Congress. Republicans won back control of the senate in fall 2002. However, Republican hopes for controlling both branches were derailed when Jim Doyle defeated incumbent Scott McCallum and became the first Democrat in the governor's office in 16 years.

²⁸ The inflation figure is based on the change in the Consumer Price Index for urban consumers (CPI-U) nationally from the second quarter of 1996 to the second quarter of 2006, which was a 29.2 percent increase.

D. Priorities for Allocating Funds Between Programs

Several substantive policy priorities set the framework for the TANF and child care spending decisions, as revealed by the spending choices made by the legislature and executive branch during the last several biennial budgets. Some of the priorities have been quite explicit; others require reading between the lines. Some have broad bipartisan support, while others reflect the more partisan policy priorities of W-2's framers.

1. *Minimizing GPR spending:* One of the highest priorities has been holding down spending for W-2 related programs, including Wisconsin Shares. This was best illustrated by the decisions to use TANF funds to finance significant portions of the state's costs for the EITC, Milwaukee child welfare system, community aids, and Head Start. Perhaps more important, this priority affects the ongoing deliberations over how to address shortfalls resulting from rising caseloads.
2. *A bipartisan commitment to fully fund child care subsidies:* The child care subsidy program, Wisconsin Shares, is viewed as a critical work support. It is part of a broader commitment to providing work supports for low-income workers, regardless of whether they were formerly on cash assistance. Governor Thompson vowed when W-2 was created that there would be no waiting lists for child care, and thus far that promise has been fulfilled. That commitment was further reinforced by provisions in state and federal law that prohibit sanctioning certain W-2 participants for failing to participate in work placements when they lack access to suitable and affordable care within a reasonable distance of their home or workplace.²⁹
3. *Strong support for the EITC:* The Wisconsin EITC enjoyed broad, bipartisan support when it was enacted in 1989, and that support appears to have continued. From the outset, the state EITC has been viewed as a welfare reform measure that makes work more attractive than public assistance.³⁰ Since 1999, when the state began to finance the EITC primarily with TANF funds, the extent of continued bipartisan support for the credit has been harder to gauge because that funding shift makes it less vulnerable to cuts than if the credit were still financed with general fund revenue.
4. *The W-2 work-first philosophy:* As mentioned earlier, the "work first" concept was a core principle of W-2 when the program was being designed. That is no less true today. A very strong commitment to the principle that work is the answer for all low-income parents—regardless of pay rate, job stability, or chance of advancement—has continued to play a

²⁹ The federal prohibition against sanctions for failing to participate in work program if suitable and affordable child care is not available within a reasonable distance applies to single parents with children under age 6.

³⁰ The Wisconsin EITC, unlike those in other states, increases substantially with family size, because legislators were attempting to make work more attractive by lifting families working at the minimum wage above the poverty level. It is 4 percent of the federal credit for families with one child, 14 percent for two children, and 43 percent for three or more children.

critical role in determining the shape of W-2 and the types of activities and training that can be offered to program participants.

5. *Risk and reward for W-2 agencies:* A key principle of W-2 is that the local agencies should have flexibility in deciding which services and assistance the W-2 applicants should receive. The state essentially gives the agencies small block grants, and they have incentives to hold down spending by reducing caseloads or not providing services.³¹ On the other hand, the agencies run some risk if spending exceeds the contracted amount for W-2 benefits, services, and administration. In the early years of W-2, it appeared that the agencies would get more assistance if the funding for work benefits fell short. However, recently the state has become much slower to provide supplemental funding for cash benefits.

Another priority that could be added to the above list is caseload reduction. It was omitted from the list because the goal of lowering and holding down the cash assistance caseload is largely covered by the first and fourth points. Nevertheless, an argument could also be made that it is a separate and distinct objective, with a logic of its own. In the early years of W-2, caseload reduction was invariably the yardstick used to measure the program's success. That has not been as true in recent years, but fiscal and political pressures on the Doyle administration seem to have increased the importance of caseload reduction relative to other objectives.

The policy priorities that create the framework for TANF and child care funding choices are not static, and they cannot be considered in isolation. When the state had a large TANF balance, it could fully fund the core W-2 services as well as others and still cut state funding support for W-2 to the minimum level. However, the state entered the 2005-2007 budget deliberations with a large structural deficit in its TANF budget, growing child care caseloads and an immediate shortfall in the amounts provided to the W-2 agencies for W-2 work benefits.³² This put the relative importance of the priorities to much more of a test than had been the case in previous years.

E. Bipartisan Power-Sharing in the Joint Finance Committee

Although the role of the executive branch is important, given that the governor has the first and last word on the budget bill, the Joint Finance Committee (JFC) is a more interesting setting to watch the political and substantive arguments on budget decisions for TANF and child care funding play out. From 1997 through 2002, the JFC was evenly split, with eight Democrats and eight Republicans. One of the co-chairs for nearly the entire period was Representative John Gard, a Republican who was also one of the leading proponents of W-2. Senator Gwendolynne Moore, a Democrat who was one of the most vocal advocates for changing the program, was appointed to the Finance Committee at the beginning of 1999 and continued to serve through the end of 2004.

³¹ The contracts with W-2 agencies have generally allowed them to pocket at least a portion of any unspent W-2 funds. As shown in the Legislative Audit Bureau's figures in Table 1, 5.2 percent of W-2 spending from September 1997 through June 2004 was unrestricted profit.

³² The budgeted TANF appropriations for state FY 2005 exceeded the annual TANF funding stream by about \$50 million, which created a TANF structural deficit of roughly \$100 million in the 2005-2007 biennium.

Senator Moore and other Democrats on the committee attempted to make basic changes in the structure of W-2, and to soften what they viewed as the program's rough edges. Some of the many changes they sought included placing greater emphasis on education and training, providing other support services (such as transportation assistance), allowing parents of infants to stay home beyond just the first 12 weeks after an infant's birth, restoring fair hearings, and adding a transitional jobs category to the W-2 employment options.

Most, if not all, the Republicans viewed W-2 as a success, and they were strongly opposed to any changes in the program's basic design. From the perspective of advocates for low-income families, it appeared that the Republican leaders were also motivated by political considerations or "pride of authorship" to oppose any changes they thought might be perceived as suggesting that the initial design was flawed.

The Republicans were also extremely interested in taking advantage of the TANF surplus to free up as much state funding as possible, to reduce overall state expenditures, and provide larger tax cuts. In that regard they had company. A bill introduced early in 1999 to shift EITC financing to TANF funding was quickly approved in the assembly by a very broad margin.³³

The Republican JFC members were assured of at least the eight votes they needed to block attempts to alter the structure of W-2. On the other hand, they needed the support of Democrats to shift funds or for other program adjustments that the Republicans supported. Beyond the political imperative for bipartisan cooperation on certain spending decisions, the Republicans also seemed to be genuinely interested in involving the Democrats in spending choices that were likely to have much greater consequences for many of the Democrats' constituents.

The process that emerged by 1999 was one in which the committee turned to bipartisan work groups to assemble a "package" of motions that could be supported by all or most of the committee members. The JFC openly considered and debated various policy options for TANF and W-2 but would put aside the contentious issues and the funding matters that were closely intertwined with other funding choices. Near the end of the committee's period for reshaping the budget, the work group would conduct intensive, closed-door negotiations on the content of the package.

From 1999 through 2002, the chief negotiators in the work group on welfare reform issues were Gard (the JFC co-chair) and Moore, who were arguably W-2's chief legislative defender and critic, respectively. The committee knew that if those two could hammer out an agreement, it would have smooth sailing in the JFC and in the full Legislature. Moore and Gard developed a strong working relationship, and they consistently produced compromise packages on TANF and child care issues that were approved by the legislature.

³³ As noted in the next footnote, the senate did not approve that specific bill, but the funding shift was included in the 1999-2001 budget bill.

The most interesting and important round of negotiations occurred in 1999, when the Finance Committee had the opportunity to draw on the \$130 million TANF carryover. The assembly had already approved a separate bill to use TANF funds for three-fourths of the cost of the existing Wisconsin EITC.³⁴ However, the Democratic leadership in the senate held up the bill, arguing that it needed to be considered with all the other TANF spending questions. That led to intensive negotiations in the informal JFC work group. Ultimately, the work group developed, and the legislature approved, a bipartisan package that maximized the amount of state GPR funding that was replaced, while giving Democrats some of the policy changes they sought, and it contained funding for some new W-2 programs and services supported by the Democrats. Governor Thompson subsequently vetoed significant parts of that compromise package, but by no means all of it.³⁵

In the 2003-2004 legislative session, Republicans took control of both houses, while a Democrat took over as governor. Although the Republicans occupied 12 of the 16 seats on JFC, they continued to work with the Democrats, and particularly Senator Moore, as they put together their version of the W-2 spending in the 2003-2005 budget. To some extent, that might be explained by the development of a good working relationship on these issues in the previous sessions. It may also have reflected the fact that with a Democrat in the governor's office, the Republicans needed bipartisan approaches to the TANF and child care spending choices. They were able to continue to block proposals for structural changes in W-2, but they worked with the Democrats on some of the other spending choices.

The bipartisan efforts in the Finance Committee did not carry over to the 2005-2007 W-2 budget. In May 2005, the Republican committee members fashioned an omnibus package of cuts and changes to the governor's TANF and child care budget. It was developed behind closed doors—as has often been the case—but without the involvement of Democrats. The governor subsequently vetoed a number of the legislature's changes to TANF and child care spending (including a 15 percent increase in child care co-pays).

There are several possible explanations for the shift to a more partisan strategy in the 2005-2007 budget process. One is the absence of a Democrat on the committee who has developed the sort of working relationship with the Republican committee members that Senator Moore had developed. Among the other potential explanations is that the 2005-2007 TANF budget was an even more difficult one to balance, and the Republicans may have decided that trying to find a

³⁴ Early in 1999, the federal DHHS approved regulations allowing TANF funds to be used for the refundable portion of a state EITC. Wisconsin was one of the only states that had a refundable EITC at that time, and within days of learning of the new option, the assembly overwhelmingly approved a bill to fund about three-fourths of EITC costs with TANF funds. That specific bill was not enacted, but the 1999-2001 biennial budget bill allocated \$48 million of TANF funds for the EITC in FY 1999, \$51 million in FY 2000, and \$54 million in FY 2001.

³⁵ Vetoes by Governor Doyle in the 2005-2007 budget include the deletion of an increase in Wisconsin Shares co-pays by 15 percent, a cut in the Children First Program (the state employment and work experience program for noncustodial parents who fail to pay child support), cuts in several child care quality programs, and several changes relating to W-2 contracts and oversight.

middle ground would have been fruitless. It was unlikely, for example, that the Democrats could have been persuaded to support a \$23.6 million reduction in state GPR funding for W-2 related programs, which was a significant component of the omnibus package developed by the Republicans.

V. GEOGRAPHIC ALLOCATIONS OF FUNDS

A. Restricted Versus Unrestricted Benefits

The programs financed with TANF and CCBG funds fall into two general categories: those that are restricted, such as W-2 work benefits and kinship care, and those with unrestricted participation. The latter category includes child care subsidies, the caretaker supplement, and the EITC. Although the caretaker supplement and child care subsidies are not entitlements, per se, they look very similar to entitlements so long as the state is able to keep its nonbinding commitment to avoid waiting lists.

The unrestricted benefits are disbursed as a function of where the enrollment or use of the program occurs. In the case of the child care subsidies and the EITC, the cost per case (or per tax credit) is another important variable in the geographic allocation of dollars. In 2004, the average monthly spending for child care subsidies was 45 percent more per child in Milwaukee than the average for the rest of the state.³⁶

Table 3 compares the W-2 spending in Milwaukee with that in the rest of the state and illustrates that the geographic distribution varies substantially among the various programs. More than four-fifths of employment benefit spending in 2002 and 2003 was in Milwaukee, compared with 30.5 percent of EITC expenditures, 50.2 percent of caretaker supplement benefits, and 54.6 percent of the spending for child care subsidies.

³⁶ The primary cause of higher child care spending per child in Milwaukee County is simply the marketplace, given that rates are adjusted annually using a rate survey for each county. A secondary factor is that family income of participants is lower in Milwaukee; therefore, co-pays are lower and the state share of spending is higher.

Table 3. The Geographic Distribution of TANF and Child Care Benefits

<i>Program</i>	Milwaukee		Balance of State	
	Amount	% of Statewide	Amount	% of Statewide
Wisconsin Shares (CY 2004) ^a	\$157,841,007	54.6	\$131,120,623	45.4
Earned Income Tax Credit (TY 2003) ^b	21,249,229	30.5	48,516,707	69.5
Caretaker Supplement (FFY 2004)	14,931,600	50.2	14,839,900	49.8
Kinship Care (FFY 2004)	12,144,060	59.8	8,174,515	40.2
W-2 Contract Amounts (CY 2002 & 03)				
W-2 Cash Benefits	105,459,586	81.0	24,743,663	19.0
Services	91,864,422	65.7	47,896,863	34.3
Administration	20,557,110	64.2	11,478,988	35.8
Additional Services	12,234,337	50.1	12,171,228	49.9
Total Contracts with W-2 Agencies	230,115,455	70.5	96,290,742	29.5

CY = calendar year, TY = tax year, FFY = federal fiscal year

^a Reflects only the subsidy payments and not the small amount of child care funded at job centers and for farm workers.

^b Includes total spending for the EITC in that area, not just the portion financed with TANF dollars

Sources: Legislative Fiscal Bureau; Department of Workforce Development; Legislative Audit Bureau, *Wisconsin Works (W-2) Program*.

Table 4 compares the average monthly enrollment in W-2 and Wisconsin Shares with other programs for low-income families. (Not all of the data sources are directly comparable. For example, some count the number of families or households participating, whereas others, such as family health care, count number of individuals enrolled). Nevertheless, the enrollment figures reinforce the conclusion that far fewer families participate in W-2 than in many other programs for low-income families, particularly outside Milwaukee County. The figures also show that the share of participants in Milwaukee is much higher for W-2 (nearly 80 percent) than for other low-income programs.

Table 4. Participation in Programs for Low-Income Households

<i>Program</i>	Milwaukee		Balance of State	
Wisconsin Shares (families, 2004 monthly avg.)	12,346	41.3	17,558	58.7
Earned Income Tax Credit (TY 2003)	56,691	26.5	157,473	73.5
Caretaker Supplement (children, 2003 monthly avg.)	5,888	51.1	5,627	48.9
Kinship Care (children, 2003 monthly avg.)	7,256	61.4	4,558	38.6
W-2 Cases (2004 monthly avg.)				
W-2 Cash Caseload	9,632	79.9	2,428	20.1
W-2 Cases Without Payment	2,584	78.5	709	21.5
Total W-2 Cases	12,216	79.6	3,137	20.4
Food Stamps (no. of groups, 2004 monthly avg.)	58,256	43.3	76,360	56.7
Family Health Care ^a (total recipients, Dec. 2004)	149,531	31.2	330,052	68.8

TY = tax year

^a The term “family health care” is used to refer to the three categories of coverage for low-income children and parents in families below 200 percent of the poverty level: MA-AFDC, Healthy Start and BadgerCare

Sources: Legislative Fiscal Bureau and Departments of Workforce Development, Health and Family Services, and Revenue

B. Agency Discretion

Ultimately, local agencies that administer the W-2 program make many of the spending decisions. “Flexibility,” in fact, was one of the buzzwords used to sell the program. “Accountability” was another word often used by W-2 proponents, but advocates for low-income families have complained from the outset that the principle of accountability was not a two-way street. It has been applied to the recipients of public assistance, but advocates contend that it was not built into the system of contracting with W-2 agencies

Concerns about the discretion possessed by agencies to provide or deny services to W-2 participants and potential participants were compounded as DWD began to implement the program and authorized agencies to place W-2 participants in a “job ready” category. Job-ready participants are unemployed parents who are deemed by W-2 agencies to be ready for unsubsidized employment. A W-2 participant placed in that category does not receive cash benefits but can receive employment counseling, job search assistance, job training, and adult basic education.

The job-ready category is not explicitly authorized by statute or administrative rule, but is governed by less formal DWD policies and procedures. One such policy requires that if a job-ready parent does not find employment within 30 days of being labeled such, the agency should consider a community service job or other subsidized placement.³⁷ However, advocacy groups have frequently

³⁷ Legislative Audit Bureau, *Wisconsin Works (W-2) Program*.

raised concerns that the job-ready category is overused by many W-2 agencies to hold down the cash caseload.

DWD issued a clarification in March 2004, which appeared to result in a significant drop in the number of individuals in the job-ready category, particularly in Milwaukee County.³⁸ However, in the subsequent months, the department has put pressure on the W-2 agencies to move W-2 participants into jobs more quickly and to reduce caseloads. Some advocacy groups contend that the job-ready classification is once again being over-used to lower agency expenditures.

Confidence in the Milwaukee W-2 agencies has also been shaken by revelations that they have used funds improperly on a number of occasions.³⁹ Some prominent proponents of the W-2 program, as well as some of its critics, have questioned the past track record of the W-2 agencies in moving participants into unsubsidized jobs. Such concerns lead some to argue that the solution is to reduce funding for cash assistance and force the agencies to lower caseloads. Several advocacy groups are extremely concerned about that approach because they believe that the W-2 agencies can deter and reduce enrollment without providing the services that are necessary and appropriate for parents who have substantial barriers to employment.

The lack of confidence in some of the W-2 agencies presents a tremendous challenge for policymakers allocating TANF funding. The state is continuing to struggle with how to determine whether W-2 agencies are providing effective services and not abusing the latitude they possess to deter or discourage participation in W-2.

C. Differences in Agency Spending

The Legislative Audit Bureau (LAB) issued a report in April 2005 with a wealth of information on the number of people in each county (and for each Milwaukee agency) receiving different types of W-2 services, as well as the amount of spending for each type of service. The Audit Bureau's analysis reveals significant variation in what W-2 participants receive by county and across Milwaukee agencies. For example:

The state provided only 15 percent of W-2 participants in Dane County and 20 percent of those in Milwaukee region 2 (served by United Migrant Opportunity Services (UMOS)) with employment search services compared with 61 to 67 percent in the other five regions of Milwaukee.

³⁸ The Legislative Audit Bureau's April 2005 report shows a statewide decline from 4,068 job-ready participants in 2003 to just 1,283 in the first six months of 2004. As of June 2004, 2.4 percent of total W-2 participants were in the job-ready category compared with 5.0 percent in June 2003 and 5.4 percent in June 2002.

³⁹ Among the many financial dealings that have generated serious concerns, if not legal or administrative sanctions, have been a kickback scheme between one of the agencies (OIC) and a former state senator; \$100,000 spent by another agency for promotional materials such as backpacks and coffee mugs; and a third agency's use of \$270,000 to lobby for more work in other states.

- The state provided motivational training to only 6.4 percent of participants in Brown County but to 40.7 percent in Rock County (with a statewide average of 21.2 percent).
- The state provided adult basic education services to more than one-third of the participants in each Milwaukee region, but to only 1.7 percent in Fond du Lac County and 2.5 percent in Winnebago County.
- Fewer than 8 percent of families received parenting and life skills services in each of the three Milwaukee regions served by Opportunities Industrialization Center, but more than 30 percent received such services in each of the other three Milwaukee regions.
- Average monthly spending for skills training and education combined was just \$18 per participant in the two Milwaukee regions served by Maximus, a private contractor, compared with \$114 per participant in Rock County.
- Total monthly spending on services averaged \$310 per participant in the Milwaukee region served by UMOS compared with \$731 per participant in Racine County.

**Table 5. Average Monthly Services Spending, by W-2 Agency
2002-2003 Contract Period**

W-2 Agency	Ave. No. of Participants Served per Month	Avg. Monthly Spending per Participant					
		Work Activities	Skills Training	Education Activities	Other Services	Total Services	
Milwaukee County							
Maximus	1,788	\$245	\$ 7	\$11	\$67	\$330	
OIC-GM	2,106	241	9	18	47	315	
UMOS	3,965	222	20	15	53	310	
YW Works	2,807	270	25	50	134	479	
Other Counties							
Dane County	578	434	71	20	81	606	
Kenosha County	400	331	6	42	158	537	
Racine County	190	302	38	19	372	731	
Rock County	200	252	32	82	319	685	
State Total		13,801	\$271	\$25	\$27	\$122	\$445

Source: Legislative Audit Bureau, *Wisconsin Works (W-2) Program*, (Madison: April 2005, p. 32).

Table 5 provides additional data on the differences in spending for services, using two years of W-2 spending during the most recently completed contract period (2002-2003).

The Audit Bureau's report noted several possible reasons for the variation in services and expenditures, and it indicated that "some amount of differences based on W-2 agencies' assessments of participants' needs is desirable, as it is more likely to result in positive program outcomes." However, the report goes on to state: "[S]ignificant variations in agencies' per participant expenditures raise concerns about whether participants statewide consistently received the level of services they needed to find and maintain unsubsidized employment."⁴⁰

D. Dividing Restricted W-2 Benefits Between Agencies

DWD allocates funding for restricted W-2 benefits and services on the basis of estimated need. For most of those funds, which the state commits to allocate in its contracts with the W-2 agencies, funding is determined by a formula that is periodically revised by the department. The formula sums the number of "cases" per agency, calculating the percentage of the total cases statewide that number represents, and then applies that percentage to the available funding. For the last two contract periods, cases have included W-2 cases, Food Stamp Employment and Training (FSET) cases, and child care cases, all of which are generally the responsibility of the W-2 agency.

For the calendar year 2004-2005 contract period, the number was determined on the basis of the caseload in state FY 2003, which was an improvement over the 2002-2003 contract. That contract used a sample year that ended a full year before the new contract began. In a period of rising caseloads, that meant that projections would be less than actual cases, a source of constant aggravation. When the state was just a couple of months into the county FY 2004-2005 contract period, W-2 agencies were beginning privately to raise concerns about the adequacy of the funding level.

The department has attempted to give more weight in the equations to "harder cases." Thus, in the 2002-2003 contract period, cases in which the adult had not obtained a high school diploma or equivalent, and those containing a disabled child or adult, were each counted as two cases instead of one. (Several other categories of hardship were considered, but not included, for example those with language barriers or lack of work experience.)

In the 2004-2005 contract period, this practice was discontinued in favor of weighting the type of case. As a result, W-2 cases are counted as one whole case, FSET cases are counted as 0.81818 case, and child care cases are counted as 0.2045 case. The department developed this method with input from an advisory committee composed of primarily of W-2 agencies and results of a time study that weighted the relative effort required to provide services to different types of cases.

The weighting change resulted in a proportional increase in benefits for Milwaukee County, given that their W-2 cases averaged 78 percent of the statewide total, their FSET cases 51 percent, and their child care cases 34 percent during the year measured.

⁴⁰ Legislative Audit Bureau, *Wisconsin Works (W-2) Program*, pp. 32 and 33.

Further adjustments were made for counties with fewer than five W-2 cases. Each of these agencies received an allocation on the basis of five cases, regardless of the actual number, to reflect what is believed to be the minimum infrastructure necessary for an agency to conduct business.

Finally, agency allocations for administration were generally set in 2004-2005 at 15 percent of the contract level, but the three Milwaukee agencies received only 12 percent. According to the department, this lower allocation for Milwaukee agencies was based on "historic spending needs." The remaining 3 percent (\$6,112,987 under the 2004-2005 contract) was set aside for special needs that may arise in the county. (The 2002-2003 contract provided that smaller counties could request additional administrative funds to a cap of 20 percent of the total allocation.)

In addition to these base allocations, agencies receive additional funding for particular purposes, such as job access loans, the Children First program, and supplemental food stamp employment and training funds to match local funds. Because these amounts are very small relative to the funding for W-2 benefits, services and administration, the following discussion focuses almost exclusively on the W-2 contract amounts.

As noted, the allocation formulas are determined almost exclusively by DWD, with guidance from an advisory committee. However, the Joint Finance Committee has exerted pressure at times, especially when it was reviewing agency requests for supplemental funding for the agencies.

E. Interviews with W-2 Agency Administrators

In fall 2004, we interviewed five W-2 agency administrators: two from private Milwaukee County agencies, two representing county agency consortiums, and one representing a single county agency. We asked administrators whether they viewed the process as fair and, if not, what changes they would suggest.

The agency representatives in our small and unscientific sample were all of like mind on one point. They all believed that grossly insufficient funding was fundamentally unfair. All indicated that they had to implement significant cuts to services provided to W-2 participants, particularly given the increases in their caseloads between 2002 and 2004. This felt to them like a failure of the W-2 program to deliver promised services, such as case management, counseling, and transportation needed to help participants succeed in the workforce. Not surprisingly, on many other points they disagreed, particularly on how the limited funding should be divided between the agencies and the regions of the state. However, in general, W-2 agency representatives had no problem with the special allocations for small counties.

An important source of controversy was a substantial shift of funds in November 2003. Milwaukee received several million dollars from funds previously allocated to the balance of the state but which had not been spent. Agencies outside of Milwaukee believed that they were being punished for using their funds wisely and conserving their resources and, conversely, that

Milwaukee agencies were rewarded for continuing high caseloads, with no attention to the level of services provided to their clients.

At the source of this controversy is the fact that the state and the W-2 agencies have not developed a satisfactory system for measuring agency success and for comparing results in very different parts of the state. As a result, some individuals look at agencies in Milwaukee and conclude that they are not trying hard enough to push the work-first philosophy of W-2, or that they are not competent enough to help participants find jobs. Others believe the agencies outside Milwaukee are too aggressive in diverting participants from the cash caseload and into the job-ready category or into jobs that are inappropriate.

The basic question is whether caseloads are the correct measure of funding needs. Although many observers agree that it is a problematic measure, most concede that it will need to be a central part of any allocation formula. However, one agency head suggested that allocations should not be determined on the basis of caseloads at all, but rather on the number in the county living below 200 percent of the federal poverty level, which is the upper limit in Wisconsin of eligibility for TANF-funded services. Of course here, as well, an agency might be rewarded without showing that residents were actually being helped.

Others suggested weighting hardship factors. Two agency heads advocated restoring a caseload weighting for adults lacking high school degrees and for families with disabilities. Other suggestions for hardship categories to weight included language difficulties or learning disabilities, those with alcohol and other drug abuse problems, and those lacking a work history. One agency head suggested that those placed in a W-2T work placement (the placement for those with the most serious barriers) should be given extra weight. Another suggested that labor market information should also be a factor, including unemployment rates, average wages, occupational limits, and discrimination in employment.

Language difficulties, mental health problems, and a lack of education and work history are timely considerations in Wisconsin because of a substantial influx of Hmong families in 2004.⁴¹ In fact, a couple of interviewees raised concerns about the fairness of state funding distributions for the counties most affected by Hmong refugees. Although the department was able to divide an additional \$1 million between the W-2 programs facing substantial numbers of new families, some agency representatives believed the amount was likely to fall far short. In one county, the allocation was expected to last only a few months, depending on how many families qualified for the program.

Regardless of the allocation method, all seemed to agree that monitoring how agencies are serving their caseloads with proper case management and other services is critical. All also agreed that good case management was not cheap. And, as before, interviewees bemoaned the fact that the recent reduction in funding meant that they were unable to provide the services they believed appropriate to the needy families in their districts.

⁴¹ Georgia Pabst, "3,000 Hmong Expected to Settle in Wisconsin." *Milwaukee Journal-Sentinel*, May 22, 2004.

Because of the funding shortfalls, particularly in the cash assistance allocation, we found considerable support for keeping the benefit money at the state level, to be issued directly to participants as needed, and outside the contract. Such a change could avoid the conflict of interest inherent in the current system, which essentially creates a fiscal disincentive for allowing W-2 participants to receive cash benefits.

VI. RECENT CRITIQUES OF AND CHANGES TO W-2

A. Measuring the Success of W-2

Over the history of W-2, many observers have gauged the program's success primarily by caseload reductions.⁴² Measured in those terms, W-2 has certainly been effective. However, several studies examining other potential measures of success paint a less flattering picture of the W-2 program. For example, the 2005 audit report included a section on "program effectiveness," citing that:

- "approximately 20.0 percent of former participants earned more than the poverty level in the year after they left W-2, while the majority did not;
- the percentage of former participants with incomes above the poverty level increased slightly each year from 2000 to 2003; and
- 42.1 percent of those who left W-2 in 1999 earned more than the poverty level in 2003, after the inclusion of several tax credits."⁴³

The audit report went on to note that, "The extent to which former participants subsequently return to subsidized placements provides another indication of how well W-2 has helped participants achieve economic self-sufficiency. Returning participants increased from 38.6 percent of all subsidized placements in June 2000 to 52.3 percent in June 2004."⁴⁴

Proponents and critics of W-2 responded very differently to the Audit Bureau's report. Yet regardless of one's overall impression of program effectiveness, most would agree that there is room for improvement.

Unfortunately, policymakers have generally been unable to compare the effectiveness of different agencies or different services in helping families become self-sufficient, owing to data limitations. The absence of good data has limited the ability of the state to make informed decisions

⁴² In the child care subsidy program, in contrast to W-2, caseload reduction has never been the standard for gauging success, and enrollment has grown dramatically since the program's inception.

⁴³ Legislative Audit Bureau, *Wisconsin Works (W-2) Program*, p. 5.

⁴⁴ *Ibid.*

about how to divide funding between different types of services or benefits and between the W-2 agencies.

B. Recent Administrative Changes in W-2

In response to the Audit Bureau's report and to revelations of significant financial improprieties in the Milwaukee agencies, DWD has made several administrative changes. Most notably, in June 2005 it announced significant changes in the next round of W-2 contracts with local agencies, particularly in Milwaukee. In conjunction with that announcement, the department released a new Request for Proposals (RFP) that has reshaped local administration and state oversight of W-2.

The new contracts are for a four-year period, instead of two years. According to DWD, that change will "stretch administrative funds and promote program stability."⁴⁵ The RFP also strengthens the department's ability to cancel contracts annually or "whenever necessary" for failure to meet agreed on expectations. Some of the other changes that apply statewide include the following:⁴⁶

- Performance-based incentive reimbursement by DWD for large agencies, which will make receipt of the final 20 percent of their contract allocation contingent on meeting program outcomes.
- New performance standards focused on successful participant outcomes in areas including obtaining and retaining employment, enrolling in relevant job skills training, and receiving SSI/SSDI support.
- New requirements for agencies to integrate services with other workforce development and community support programs in areas such as child welfare, as a way to better serve participants facing multiple challenges.

The new RFP contains even more changes for the Milwaukee County agencies, including:

- Increased emphasis on effective case management services by contracting with at least one specialized Case Management Agency, which should help reduce the potential conflict of interest in making assessments and plans for W-2 applicants or participants;
- A greater focus on effective participant workforce attachment through stronger connections with employers by using at least one Job Development and Placement Agency;

⁴⁵ Department of Workforce Development, RFP press release, June 24, 2005,

⁴⁶ Ibid.

- Increased assistance for people who are likely eligible for SSI/SSDI benefits, through a specialized countywide SSI/SSDI Advocacy Agency;
- Creation of an ombudsperson at DWD to support W-2 applicants and participants; and
- Additional W-2 agencies, to reduce the concentration of W-2 resources in a few entities whose performance could jeopardize the overall program.

In addition to the changes announced with the RFP, the department has been expanding the W-2 performance data it collects or requires local agencies to collect.

The legislature approved an amendment to the 2005-2007 budget bill to require DWD to report to the Joint Finance Committee on W-2 agency success on job placement and retention, former participants' earned wages, W-2 staff training outcomes, and the appropriateness and effectiveness of work, education, and training activities. The governor vetoed that section, contending that a statutory change is unnecessary, but DWD has pledged to collect and share such data.

VII. SUMMARY AND CONCLUSIONS

The flexibility provided by the TANF and child care block grants has allowed Wisconsin to make significant spending changes over time, to adjust to evolving needs and priorities. Although divided control of government in Wisconsin has prevented any significant change in the statutory structure of the Wisconsin Works (W-2) program, bipartisan agreement has been reached on related issues, including some significant changes in the child care subsidy program and shifts of TANF funds between different program areas. Some of the more significant spending shifts include the following:

- Cash assistance declined from 38.7 percent of TANF spending in FY 1998 to just 13.7 percent in 2001, but rebounded to 23.8 percent in FY 2004.⁴⁷
- Child care accounted for 43.9 percent of TANF spending in FY 2004, compared with just 13.9 percent in FY 1998.
- TANF spending for tax credits, which was not allowed in FY 1998, constituted 10.1 percent of total TANF spending in FY 2004.
- TANF spending for work-related activities declined from \$117.4 million in FY 2001 to \$32.4 million in FY 2004.

Since the initiation of the TANF and child care block grants, it appears that many Wisconsin policymakers have developed a mindset that W-2 and Wisconsin Shares should be financed within the limits of the federal funding provided and the required MOE funds, without relying on increases in state funds. That approach is becoming increasingly difficult because of significantly higher child care caseloads and spending and the continued erosion of TANF and child care funds by inflation. As a result, numerous cuts have been necessary, child care co-pays may be significantly increased, and advocates are concerned that deep cuts in W-2 contract amounts are forcing agencies to suppress their caseloads.⁴⁸

The process for distributing TANF and child care funds geographically varies significantly from one type of program to another. For the programs that are currently unrestricted—such as child care subsidies, the state EITC, and the Caretaker Supplement—the allocation of funding is strictly a function of enrollment and cost. Those three programs accounted for 58.5 percent of TANF and W-2 appropriations in state FY 2005.

⁴⁷ The spending figures used here include transfers of funds to the other block grants, as well as direct spending, and they come from the state reports to the Department of Health and Human Services.

⁴⁸ In July 2005, Governor Doyle vetoed a provision approved by the legislature that would have increased child care co-pays by 15 percent; however, this issue is likely to be revisited in future budgets, and the Doyle administration may find it necessary to increase co-pays administratively.

The more difficult and controversial aspect of geographic allocations involves the restricted benefits, particularly the 22 percent of total TANF and W-2 spending for the contracts with the agencies administering the W-2 program. The DWD is primarily responsible for decisions on how to divide funds between the local agencies. More than 70 percent of total W-2 spending in the 2002–2003 contract period was in Milwaukee County, including 81 percent of the W-2 work benefits. That compares with Milwaukee’s 30.5 percent share of spending for the EITC, 54.6 percent of Wisconsin Shares expenditures, and 50 percent of the spending for the Caretaker Supplement.

The local agencies have very broad discretion in how they spend funds received under their W-2 contracts. The report released in April 2005 by the Legislative Audit Bureau shows very substantial differences between agencies in the types of services they provide and their expenditures. That report also raised questions about the effectiveness of W-2 in achieving the goal of moving low-income families toward self-sufficiency.

The state and W-2 agencies have not routinely collected data that would allow one to gauge the efficacy of different W-2 agencies or services, or to determine with confidence the relative spending needs in different geographic areas. All the spending allocation processes, and especially the geographic allocations, have been hampered by lack of need and effectiveness measures.

The DWD has made significant changes in the current round of contracts with local agencies administering W-2. These changes are intended to address many of the concerns raised by the Audit Bureau and others, including the need for better performance standards and improved program monitoring. The changes are the latest manifestation of an ongoing struggle to balance the goals of preserving W-2 agencies’ flexibility, increasing agency accountability, holding down spending, and improving outcomes for W-2 participants.

APPENDIX A: W-2 BENEFITS AND SERVICES

Much of the following synopsis of Wisconsin Works (W-2) is excerpted from a publication written in May 1996 by the Legislative Reference Bureau, although it has been updated to reflect a few program changes and nine years of experience with the program's implementation.⁴⁹

1. W-2 Eligibility

The W-2 program serves families with incomes up to 115 percent of the federal poverty level (FPL), although meeting that income limit does not guarantee eligibility for cash assistance, and many who qualify based on income are denied such assistance. An applicant must meet several conditions, including being a custodial parent age 18 or older and having made a good-faith effort to obtain employment. Participants are expected to work in unsubsidized employment or in government-subsidized placements. Individuals who are incapacitated can be assigned to transitional placements suited to their abilities. In general, a parent's receipt of W-2 services is limited to a lifetime total of 60 months, consecutive or nonconsecutive.

A participant's monthly cash benefit depends on the type of placement and the number of hours worked during the month. Unlike AFDC, it is not determined by family size or reduced on the basis of other income.

2. Types of Employment

Participants are generally required to work in unsubsidized employment, including self-employment and entrepreneurial activities, or in placements subsidized by government. The law requires individuals in subsidized jobs to search for unsubsidized employment throughout their W-2 participation. Caseworkers, known as "financial and employment planners," assist participants in finding qualified jobs. The three types of subsidized placements, also termed "W-2 employment positions," are:

Community service jobs—A community service job (CSJ) is subsidized employment intended to give participants work experience and training to assist them in moving into unsubsidized employment or a trial job.⁵⁰ The law requires that service projects must serve a useful public purpose or that their costs be partially offset by project revenues. Participants receive a maximum monthly grant of \$673 for up to 30 hours of work per week, and not more than 10 hours of classes or training per week, but the grant must be reduced by \$5.15 per hour for work or training missed without good cause. A particular CSJ placement is limited to a six-month maximum, although a three-month extension may be permitted.

⁴⁹ Wisconsin Legislative Reference Bureau, *Wisconsin Works (W-2): A Brief Description* (Madison: May 1996).

⁵⁰ Advocates have frequently charged that CSJ placements are "make work" and not helping participants achieve private-sector jobs.

Transitional placements—This category, also known as W2T, is intended for persons who are incapacitated, needed at home because of the incapacity of a spouse or dependent child, or otherwise unable to perform a CSJ. These participants may receive a maximum monthly grant of \$628 for up to 28 hours of assigned activities (which may include physical rehabilitation, counseling, alcohol and other drug abuse treatment) and not more than 12 hours of training and educational activities per week. The grant must be reduced by \$5.15 per hour for required activities missed without good cause.

Trial jobs—These subsidized jobs provide on-the-job training and work experience for participants unable to obtain unsubsidized employment. Wages are established in a contract between the W-2 agency and the employer and must meet minimum wage requirements. Trial jobs are expected to result in permanent employment. Employment in a particular trial job is limited to a three-month maximum, although a three-month extension may be permitted. Since the program began, this placement category has very seldom been used.

Appendix Table A1 shows the number of persons placed in the three categories of subsidized jobs for one or more months in 2004, comparing the placements in Milwaukee with those in the rest of the state. The percentages show the portion of total subsidized placements in each category.

Appendix Table A1. Subsidized Placements in 2004 (Unduplicated Count)^a

	Number placed in CSJ	% of Total Subsidized Placements	Number placed in W2T	% of Total Subsidized Placements	Number placed in trial jobs	% of Total Subsidized Placements
Milwaukee	12,041	62.4	7,186	37.2	81	0.4
Balance of State	1,784	39.9	2,670	59.8	14	0.3
Total	13,769	58.3	9,772	41.3	95	0.4

^a Data are from the unduplicated participation data on the DWD website for CY 2004. The totals for Milwaukee and the “balance of state” exceed the statewide totals because some families moved and were served in more than one county, but they were just counted once in the state total.

Participation in any of the three subsidized categories is generally limited to 24 months per placement type, but case-by-case extensions are possible. Likewise, although overall participation in W-2 is limited to 60 months, extensions may be permitted under certain circumstances.

3. Other Elements of W-2 and Related Programs

Caretakers of Newborn Infants—A participant who meets the other eligibility requirements for a W-2 employment position and is the custodial parent of an infant not more than 12 weeks old is eligible for a monthly grant of \$673 and is exempt from the work requirement.

Child Care Subsidies—The child care subsidy program, now known as Wisconsin Shares, is not technically part of W-2, but it was a key element in the 1997 legislation creating W-2. The program serves families with incomes up to 185 percent of the FPL, and families entering the

program below that level can remain in the program until their income exceeds 200 percent of the FPL. Child care subsidies may be provided for children age 12 and younger (or under age 19 for children with disabilities). All recipients are required to pay a portion of their child care costs, up to 12 percent of income. Persons participating in approved training or educational programs may receive child care subsidies only if they are also working at least part-time, or are under age 20 and trying to complete a high school education.

Kinship Care—A relative who is providing custodial care and maintenance for a child may be eligible for kinship care payments of \$215 per month if certain conditions are met. The definition of a “kinship care relative” includes a stepparent, brother, sister, stepbrother, stepsister, first cousin, nephew, niece, aunt, uncle, or persons denoted by the prefix “grand,” “great,” or “great-great.” Counties must determine eligibility and decide whether the placement is in the best interest of the child, whether the child would otherwise risk being placed in state custody, and whether the parent passes a criminal background check.

Caretaker Supplement—The Supplemental Security Income (SSI) caretaker supplement is paid to recipients of SSI benefits who have dependent children. The caretaker supplement caseload averaged 6,263 in 2004, and the program currently costs approximately \$30 million per year. Payments are \$250 per month for the first child, and \$150 for each additional child.

APPENDIX B: TANF AND W-2 RELATED APPROPRIATIONS IN STATE FISCAL YEARS 2004 AND 2005

Appendix Table B1 provides a more detailed look at the appropriation levels for W-2, child care, and related programs in the 2003-2005 biennial budget. The data are from a January 2005 Legislative Fiscal Bureau information paper and include all the funding sources that the state aggregates for these programs (including TANF, CCDF, state GPR funds, and child support collections). For FY 2004 it shows both the appropriation level and the actual spending.

The data for Figure 3 comparing FY 1999 through FY 2007 appropriations are from the spending categories shown in Table B1, with a few small adjustments. We separated cash benefits and the other W-2 contract allocations (administration and services), we included the Early Childhood Excellence grants in the child care category, and we combined “grant programs” and “other support services.”

Fewer appropriations are listed under some of these categories than in earlier budgets because of the many cuts in the more recent biennial budgets (see, for example, Table 2).

Table B1. TANF and W-2 Related Appropriations (2003-05)

	2003-04 Budget	2003-04 Actual	2004-05 Budget
W-2 Agency Contract Allocations			
Subsidized Employment Benefits	\$68,343,200	\$71,583,200	\$68,664,300
Administration Services	21,165,700	19,145,600	19,615,800
	55,606,600	54,763,400	54,931,600
Child Care			
Direct Child Care Subsidies	298,640,600	299,819,400	308,040,600
Programs to Improve Quality and Availability	9,587,500	9,832,000	9,731,900
Local Pass-Through Program	2,475,100	2,475,100	2,478,500
Other Benefits			
Kinship Care	24,122,200	22,967,600	24,122,200
Caretaker Supplement for Children of SSI Recipients	26,397,200	28,661,100	29,175,100
Emergency Assistance	4,500,000	6,401,800	4,500,000
Job Access Loans	200,000	420,000	1,150,700
Child Support Related to W-2			
Child Support Payments	15,687,100	15,687,100	15,097,100
Children First	1,140,000	1,045,200	1,140,000
Administrative Support			
State Administration	18,484,600	17,424,900	18,484,600
Other Support Services			

	2003-04 Budget	2003-04 Actual	2004-05 Budget
English for Southeast Asian Children	100,000	100,000	100,000
Grant Programs			
Early Childhood Excellence	2,500,000	2,500,000	2,500,000
Grants to Boys and Girls Clubs of America	300,000	300,000	300,000
Expenditures in Other Programs			
Earned Income Tax Credit	57,892,000	57,892,000	59,532,000
Head Start	3,500,000	3,500,000	3,500,000
SSBG Transfer to DHFS/Community Aids	13,420,100	13,567,000	13,420,100
Brighter Futures and Tribal Adolescent Services	1,367,100	1,367,100	1,367,100
Domestic Violence	750,000	750,000	750,000
Child Abuse and Neglect Prevention Board	340,000	335,700	340,000
Child Welfare Safety Services	7,323,600	5,804,400	7,323,600
Child Welfare Information System	1,417,600	1,056,700	1,463,200
Child Welfare Prevention Services	1,489,600	1,489,600	1,489,600
Refugee Family Strengthening Project	713,500	713,500	0
Total Expenditures	\$637,463,300	\$639,578,700	\$649,218,000

Source: Table 10 in *Wisconsin Works (W-2) and Other Economic Support Programs*, Wisconsin Legislative Fiscal Bureau; January 2005, p. 45.

APPENDIX C. ANALYZING FEDERAL AND STATE SPENDING DATA

We relied on three major sources of data: TANF spending figures reported by each state to the federal Department of Health and Human Services (DHHS), state appropriation figures tracked by the Legislative Fiscal Bureau for W-2 and related programs, and W-2 specific spending figures gathered by the Legislative Audit Bureau.

The expenditure figures reported to DHHS have both advantages and disadvantages. The key advantage is the use of standardized categories of expenditures, which facilitate spending comparison across states. Disadvantages are that: (1) most recent data are from federal FY 2004; (2) the standardized spending categories used at the federal level do not necessarily conform closely to state program categories and sometimes present a confusing picture of state spending choices; (3) federal reports focus only on TANF dollars, which has both advantages and disadvantages in analyzing TANF and child care spending; and (4) states sometimes reclassify spending and retroactively change how it is reported on the federal forms, which can create anomalies in the data.

Using the Legislative Fiscal Bureau's data, shown in Figures 2 and 3, has both advantages and disadvantages. The state appropriations categories can be broken down more easily into the particular program areas, making them more comprehensible. However, they do not provide data that is comparable across states. The figures are appropriations rather than final spending numbers, which many perceive to be a significant disadvantage. On the other hand, that drawback is offset by the advantage of being able to examine appropriation levels for FY 2005 and in the new budget bill covering FY 2006 and 2007. Also, using appropriation data focuses more on the choices made in the decision-making process (based on the best available estimates of costs), rather than on the spending outcomes, which can be very different.

As discussed above, the appropriation data in Wisconsin combine several interrelated revenue sources, rather than focusing solely on the TANF dollars. That simplifies the analysis of trends in child care spending, and it can avoid reporting misleading TANF spending changes when TANF or MOE funds are simply replaced with a different funding source (e.g., the use of utility public benefits funds to pay part of the cost of the Wisconsin EITC in 2005). On the other hand, there is a degree of arbitrariness from year to year in what gets counted as part of the TANF and W-2 revenue and spending. In the 2005-2007 budget. For example, the Department of Administration and Legislative Fiscal Bureau recently chose not to count child support spending as part of W-2 expenditures (the paper adds child support spending to W-2 spending for comparison with prior years).

Another difference is that the reports to DHHS are for the federal fiscal year (October through September), rather than the state fiscal year (which in Wisconsin is July through June). That distinction is typically of little consequence; however, either data set may contain anomalies if a

state takes advantage of the overlapping accounting periods by doubling up two years of state spending in one federal fiscal year.⁵¹

Because the Fiscal Bureau's data are not comparable across states, the definition of what is a TANF and W-2 appropriation can be fluid, which can present challenges in using the data. We adjusted the data used by the Department of Administration and the Legislative Fiscal Bureau in 2005-2007 budget documents to make them comparable to the data from previous years.

⁵¹ For example, Wisconsin billed two years' worth of TANF spending for the refundable part of the state EITC in federal FY 2001, creating the misleading impression that there was a surge in use of TANF funds for that tax credit.

APPENDIX D: TIMETABLE OF POLICY AND APPROPRIATION CHANGES IN WISCONSIN WORKS AND WISCONSIN SHARES

Since the inception of W-2 and the Wisconsin Shares, scores of changes have been made in programmatic details and in the spending choices for the TANF and CCBG funds. The following is a condensed summary of those changes, beginning with Act 289, the law that created W-2 and Wisconsin Shares, and extending through 2004.

A. 1995 Wis. Act 289 (AB 591), Enacted 4-25-96

(References to *AB 591* indicate provisions that were approved by the legislature but changed by partial vetoes in *Act 289*.)

i. W-2

1. Establishes concept of nonentitlement to aid even if all eligibility requirements are met.
2. Unlike AFDC, eligibility is unavailable for minor parents and pregnant women without other children at home.
3. Establishes group concept that includes income of stepfathers as well as nonmarital coparents in determining eligibility.
4. As passed, *AB 591* provided that contracts were to be awarded on a competitive basis unless the Secretary of Administration determines it is not in the best interest of the state to do so. However, as vetoed, *Wis. Act 289* deletes the noncompetitive provision and adds requirement that counties have right of first refusal if they meet the “caseload performance standards” set by the department; contracts are otherwise to contain “performance-based incentives” to be set by department (but governor vetoes rule-making requirement).
5. Emergency assistance in cases of homelessness that is not disaster-related is limited to once every 36 months (other situations are eligible for help once every 12 months).
6. Establishes a 60-day residency requirement for assistance.
7. Assignments to work programs in *AB 591* could be up to 40 hours per week with pay for a month calculated at 75 percent or 70 percent of the minimum wage for full-time employment (depending on whether placed in a CSJ or a W-2T work program) with sanctions for each hour computed at the same percentage; the department was to be allowed to change these benefit levels by rule; *Wis. Act 289* sets placement hours at not more than 30 hours of work activities and not more than 10 hours of education and training for CSJs, and “up to” 28 hours of specified activities and not more than 12 hours of education and training for W-2Ts, with “flat grant” benefits set at \$555 per month for CSJs, \$518 for W-2Ts, and a \$4.25 reduction for each hour missed without good cause (based on the minimum wage at the time).

8. The wage subsidy paid to trial jobs employers was left up to the department to establish by rule in *AB 591*; however, *Wis. Act 289* establishes the subsidy at up to \$300 per month and proportionally less for part-time work.
9. Eligibility for assistance while enrolled in school is greatly curtailed, but students in postsecondary education and vocational skills training under AFDC as of December 1, 1995, are grandfathered in up to the AFDC program's anticipated end on June 30, 1997.

ii. Child Care

1. Eligibility capped at 165 percent of the poverty line (and no continuing eligibility as income rises).
2. Age of child eligible for subsidy is raised from age 10 (*AB 591*) to under 13 in *Wis. Act 289*.
3. Two levels of certification developed in *Act 289*, with different payment levels and specification that no training may be required for Level 2 certified providers.
4. Joint Finance's attempt to set parental co-payments at specific percentages of income is vetoed by governor in favor of department discretion.
5. Provision for establishing higher quality-of-care standards for providers and a higher system of rates for those that qualify.
6. Eligibility for child care while in school is substantially reduced, except for those participating in Learnfare or in other W-2 training activities.

iii. Kinship Care

1. Separate program replaces AFDC for nonresponsible relatives with a program requiring a determination that the child needs the placement, that the child meets (or would be at risk of meeting) the Children in Need of Protection or Services (CHIPS) or Juveniles in Need of Protection or Services (JIPS) requirements, and that the relative passes a criminal background check (1997 *Wis. Act 105* expands program to include long-term kinship care).
2. Benefits are \$215 per month per child.

(Department develops "caseload performance standards" for local agencies to earn the right of first refusal: a 25 percent reduction for the 12 months ending August 30, 1996, with some adjustments for reductions occurring before the 12-month period. All but Milwaukee County and three tribes meet standards, some many times over.)

B. Clearinghouse Rule re: Administration of Child Care Funds, Effective, 1-1-98

The department must go through rule-making if it proposes to increase parental co-payments by 10 percent or more.

C. 1997 Wis. Act 27 (AB 100), Enacted 10-11-97

W-2 is just beginning to be implemented; the proposed W-2 Health plan to replace Medicaid is removed, and a new BadgerCare program is enacted.

i. Child care

1. Child care eligibility is extended to 200 percent of poverty, once a family is in the program.
2. Provides eligibility for high school students and those working on GEDs if under age 20 and living in certain approved living situations (1997 *Wis. Act 41* corrects this to require approved living situations for those under 18).
3. Provides eligibility for W-2 and FSET participants while in job search.

ii. W-2

1. Program suspended for convictions of certain fraudulent acts committed to receive benefits.
2. New eligibility requirements exclude fugitive felons and persons violating parole or probation conditions, and benefits are reduced for 12 months for drug felons who fail drug tests.
3. Demonstration established to pass through child support to W-2 participants.
4. Allows two W-2 agencies in Milwaukee County, upon their request and selected by the department, to implement a wage-paying CSJ program for those working part-time in unsubsidized jobs (by statutes, program sunsets 9-30-01; it was never implemented).
5. Allows 18 and 19 year olds to satisfy part or all of their work requirements by attending high school or working on a General Equivalency Degree.
6. Governor vetoes provisions that would have excused parents from work requirements when caring for a disabled child).
7. Governor vetoes provisions allowing postsecondary training to count for up to 15 hours of participation requirements.
8. Benefit amounts for CSJs raised to \$673, for W-2Ts to \$628, and sanction rates raised to \$5.15 per hour missed without good cause (all to conform with new formula for work activities (but not education): minimum wage x maximum number of hours worked).
9. Second parent in two-parent families must work or participate in W-2 work activities if receiving a child care subsidy.
10. Provides for retroactive benefits if successful on review of an initial decision except for those denied work program placements or placed improperly.

iii. Caretaker Supplement

Established for parents on SSI who are ineligible for W-2, with a benefit amount of \$77 per child and a provision that if the department can establish that these program expenditures qualify as MOE, the payment will be raised to \$100 per child (The \$100 was codified in 1997 *Wis. Act 237*)

D. Clearinghouse Rule re: The Emergency Assistance Program, Effective, 11-1-99

Sets emergency assistance benefit level at the lowest of: (1) amount of financial need, (2) amount requested, or (3) \$150 per family member.

E. 1997 Wis. Act 236, Enacted 5-22-98

Provides food stamp benefits for “qualified aliens” who lost benefits under PRWORA

F. 1999 Wis. Act 9, Enacted 10-27-99

i. Child Care

- a. Establishes grant program for early childhood centers of excellence.
- b. Eligibility expanded for children aged 13-18 with a disability.
- c. Financial eligibility is raised to 185 percent of FPL (with continuing eligibility to 200 percent of FPL).
- d. Parental co-payments now based on family income, number of children, and type of care, as specified by the department in a printed co-payment schedule; those under age 20 and in high school or working on GEDs are limited to the minimum payment (but all have co-pays, even those below the poverty level).

ii. W-2

- a. Emergency assistance eligibility is expanded to include cases of impending homelessness, defined to include families who receive eviction notices.
- b. Requires local agencies to return to the department any contract money that is saved because of sanctioning participants.
- c. Requires the department to base any performance bonuses on specific criteria: placement in unsubsidized jobs, whether placement is full or part-time, job retention, and earning levels, in addition to appropriate implementation of W-2 and customer satisfaction (prohibits any bonus payments on the basis of caseload declines or reduced spending that is not directly attributable to placement unsubsidized jobs).
- d. Governor vetoes provision that requires the department to establish performance standards in consultation with a statewide advocacy group.
- e. Removes 60-day residency requirement.
- f. Governor vetoes several provisions to speed the payment process, including placement in a work program within 30 days for those unable to find unsubsidized

employment, placement immediately for those incapable of performing a job search, and requiring that the payment be made nearer in time to the period worked.

- g. Requires educational needs assessment and payment for basic education for those who need it and are being placed in unsubsidized employment or trial jobs.
- h. Provides for 15 hours a week of postsecondary education for those participating full-time in an approved program and who continue to work (but governor's veto requires 25 hours of work a week).
- i. Provides for prorated benefits for those working part-time.
- j. Established substantial new recovery procedures for W-2 benefits, including establishing liens on property and use of garnishment and attachment procedures as well as collection agencies.

iii. Caretaker Supplement

Payment amounts are increased to \$250 for the first child and \$150 for each succeeding child. (Governor vetoes a provision that would have provided eligibility for children of the caretaker's minor child.)

iv. New TANF Expenditures

New TANF expenditures, among others, include literacy grants, workforce attachment funding for those eligible for TANF (under 200 percent of FPL) and to reimburse the General Fund for EITCs paid for the taxable year beginning January 1998.

In addition, the department is allowed to redistribute TANF funds if approved by the Secretary of Administration. (The governor vetoes language that would have required the department to submit the request to Joint Finance under 14 day passive-review procedures.)

G. 1999 Wis. Act 133 Enacted 5-9-00

Expands kinship care eligibility to children up to age 19 who are full-time students in good standing and expected to receive a high school or equivalency diploma.

H. Clearinghouse Rule 99071, re: Kinship Care Program, Effective, 2-1-02

This rule change has been interpreted to authorize counties, except Milwaukee, to establish waiting lists. A Senate Committee opposed the change, but the vote in the Joint Committee for Review of Administrative Rules was a tie, allowing the department to promulgate the rule change.

I. Clearinghouse Rule 00066 re: Emergency Assistance for Families Facing Impending Homelessness, Effective, 2-1-01

Sets forth conditions of eligibility and type of verification required to implement new category of families eligible for emergency assistance: those facing impending homelessness.

J. 2001 Wis. Act 16, Enacted 8-30-01

i. Kinship Care

Governor vetoes procedures set forth for the department to request additional funds and the Secretary of the Department of Administration to submit a request to Joint Finance should funding for the program be insufficient to provide payments to those eligible.

ii. W-2

- a. Changes how contracts are awarded, mandating a competitive award process should the department change the geographical areas of a W-2 agency, regardless of whether an agency meets performance standards
- b. Governor vetoes W-2 agency prohibition against using funding to pay for either the costs of providing direct services or of administering the program.

iii. Child Care

Establishes training in preventing Sudden Infant Death Syndrome as a requirement for all certified child care providers (including Level 2 providers who may not otherwise be required to have any training).

K. 2001 Wis. Act 109, enacted 7-26-02

Governor vetoes provision awarding retroactive W-2 benefits when applications are not acted on promptly, applicants are denied work program placements, or they receive the wrong placement.

L. Clearinghouse Rule 02104 re: Administration of Child Care Funds, eff. 4-1-03

Authorizes DWD to establish waiting lists, set maximums paid to providers, and raise parent co-payments if child care funds are insufficient to serve all eligible families. Also established more precise categories for maximum reimbursement rates; increased monitoring to prevent fraud and overpayments, and prohibited payments to providers when care is being provided by a legally responsible parent. Following a legislative committee hearing, DWD agreed to amend it by withdrawing: (a) authority for establishing waiting lists and adjusting maximum payments owing to insufficient funds, and (b) the prohibitions on payments to providers when parent is providing care.

M. 2003 Wis. Act 33, enacted 7-24-03

i. W-2

- a. Expands the requirement for an educational needs assessment to all W-2 applicants, and requires that if the participant needs or would benefit from education and training activities that it be included in employability plans; continues the requirement that the

agency pay for basic education for those placed in trial jobs or unsubsidized employment, but only if they wish to pursue such education.

- b. By creative veto, governor resuscitates the Transitional Jobs Program (ultimately unsuccessful when the Joint Finance Committee blocks the funding).