Funding for Low-income Families Siphoned off for Other Uses

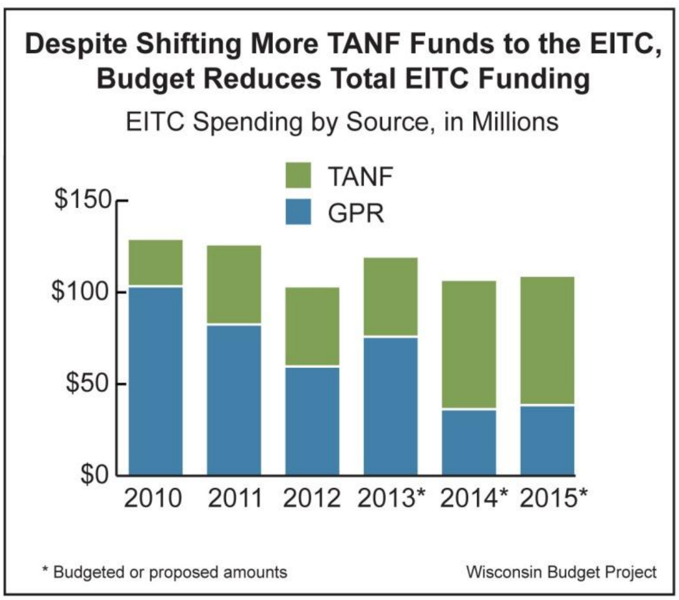
This issue brief provides a short overview of the portions of the Department of Children and Families (DCF) budget relating to assistance for low-income families. It explains how a significant portion of the federal funding intended for that assistance is being siphoned off for use elsewhere in the budget, to the detriment of the Wisconsin Works (W-2) program and the child care subsidies for low-income working families.

The TANF funding squeeze and EITC shell game

The Department of Children and Families (DCF) administers two major public assistance programs: Wisconsin Works (W-2) and the Wisconsin Shares child care subsidy program. DCF also administers several smaller programs for low-income households, such as the Caretaker Supplement for children of SSI recipients, Kinship Care, and Emergency Assistance.

The primary source of funding for the public assistance programs administered by DCF is the Temporary Assistance for Needy Families (TANF) block grant, which was initiated in 1997 to replace Aid to Families with Dependent children. The state TANF allocations have essentially been frozen since 1997 and have lost 31% of their value since that time. Wisconsin's current annual allocation of about $314 million is worth about $97 million less than the amount the state received back in 1997.

The frozen funding level is just one of the strains on financing for public assistance in Wisconsin. Another significant factor is that the eligible population has increased. According to the most recent Census Bureau data (from the Small Area Poverty and Income Estimate), 18.4% of Wisconsin children lived in poverty in 2011, compared to 14.3% in 1997.



An even bigger strain on the TANF funding is the fact that Wisconsin is substantially increasing the share of those dollars that are being used to replace state funding for the Earned Income Tax Credit (EITC). The bar graph illustrates that the Governor's budget takes an additional $27 million per year of TANF funds to help finance the state EITC, yet it cuts an even larger amount of state general purpose revenue (GPR) for the credit – resulting in a cut in total EITC funding of about $8 million per year (compared to the fiscal year 2013 appropriation). That shell game uses TANF funds to free up state funds (GPR) to use for other purposes, such as the proposed income tax cuts.

The Governor's 2011 budget adjustment bill (ACT 10) and the 2011-13 budget used that same shell game – increasing the use of TANF funds for the EITC by $37 million per year, even though the biennial budget made a large cut in the credit. The DCF budget request for 2013-15 sought to get that TANF funding returned to the department in the second year of the biennium, but the Governor's proposed budget does the opposite – increasing the supplantation of state funds for the EITC by an additional $27 million per year.

Compared to the DCF request, the budget bill shifts $91 million more to the Department of Revenue, which substantially reduces the amount available in the current budget for low-income families and could put the TANF budget deep in the red in the 2015-17 biennium.

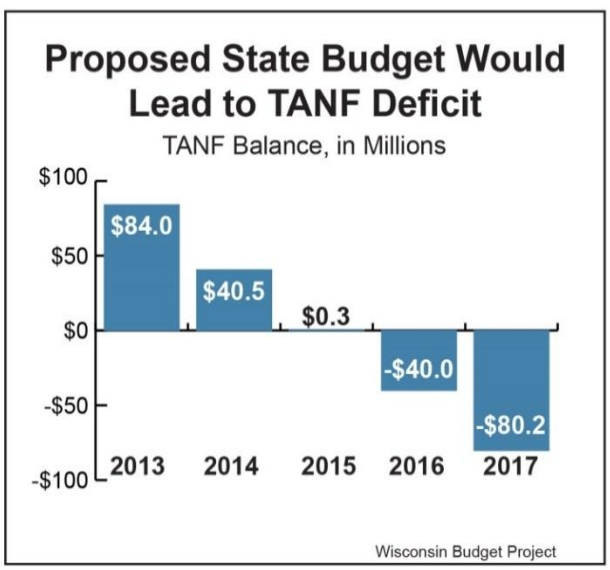
Cuts in Funding for W-2 and Wisconsin Shares

The proposed shift of $70 million of TANF funds each year to the Department of Revenue is made possible by significant cuts in the appropriations for the two largest areas of TANF spending, W-2 and the Wisconsin Shares child care subsidy program.

Wisconsin Works (W-2) – The budget bill proposes to reduce spending for W-2 cash benefits by almost $13 million the first year and nearly $20.8 million the second year. That spending decline is premised upon a drop in W-2 participation of 1% per month, which would reduce the number of participants in paid placements from an estimated 12,686 in July 2013 to 10,068 in June 2015 (a 26% decrease compared to the 13,542 in December of last year). However, the paid placements haven't decreased this year; they have increased sharply, growing to 14,518 in March. If that growth halts for the next three months, and we accept the very optimistic assumption that paid placements then fall by 1% each month, starting in July, the average monthly participation would be 13.3% more than DCF projected, and spending for cash benefits would exceed their estimate by about $18 million.

Child care subsidies – Spending for Wisconsin Shares is expected to drop by close to $17 million in 2013-14, and by $18 million the next year, compared to the 2012-13 base level, a total reduction of almost $35 million over the biennium. DCF expects the reduced funding level, which is 32% below the $403 million appropriation for 2010-11, to meet the demand for subsidies. The cost decline has been driven by policy changes implemented over the last several years that have caused a reduction in spending per child served of about 17% from 2008-09 through the first half of 2012-13 (which is a 23.4% drop when adjusted for inflation). As we explained in a short summary of the early education provisions in the budget bill, advocates are very disappointed that DCF isn't using savings in the subsidy program as an opportunity to restore fair payments to child care providers, so they have a stronger foundation to improve quality.

Other TANF funding changes – There are a number of modest spending increases and decreases in other TANF-funded parts of the budget. For example, there is an increase of almost $2.5 million per year (7.8%) to fund greater use of the caretaker supplement for children of SSI recipients, and funding for emergency assistance is being increased by $1.5 million in each year. Also, the bill contains an initiative called the Transform Milwaukee Jobs Program, which would replace the expiring Transitional Jobs Demonstration Program. (Although the budget proposed limiting the new initiative to Milwaukee County, an April 23rd letter to the Finance Committee from the Department of Administration Secretary suggests also implementing it "in other high need urban areas.")



TANF structural deficit – Despite the substantial cuts in the funding for W-2 and Wisconsin Shares, the large transfers of TANF funds to the DOR eliminate almost all of the $84 million TANF balance anticipated at the start of the 2013-15 biennium. The bar graph illustrates that if the 2014-15 appropriation levels are all continued in the 2015-17 biennium, the state would have an $80 million TANF deficit at the end of that biennium (and modifications suggested in the April 23rd DOA letter are likely to make that deficit a little larger). In light of that deficit, the cuts in W-2 and Wisconsin Shares will need to be even deeper in future years unless the state significantly reduces the use of TANF dollars to supplant state funding for the EITC.

Jon Peacock

April 29, 2013