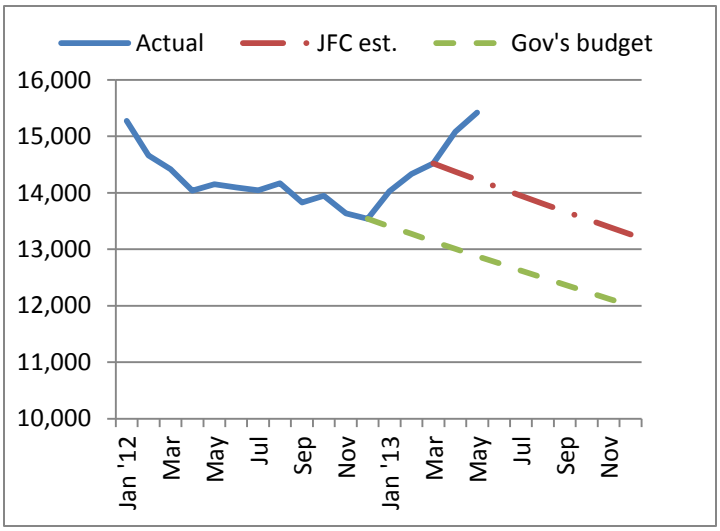
Budget Diverts Funding for Low-income Families Based on Faulty Assumptions

W-2 Participation up Nearly 14% Since December, Contrary to Assumed Decline

Figures quietly posted online last week by the Department of Children and Families (DCF) conflict with some rosy assumptions made in the state budget bill. That poses a significant problem for the strategy of cutting funding for the Wisconsin Works (W-2) program and diverting those funds to help build up the budget balance that is being used for other purposes, such as tax cuts.

The budget bill assumes that participation in W-2, the work program for unemployed low-income families, will decline by 1% every month. Based on that assumption, the bill increases the transfer of federal money from the Temporary Assistance to Needy Families (TANF) block grant to the Department of Revenue, for the purpose of reducing the state share of funding tor the Earned Income Tax Credit (EITC). The transfer to DOR is being increased by almost $38 million over the next two years (on top of a large increase in that transfer in the last budget), even though total state and federal funding for Wisconsin's EITC is being cut by $14 million.

Figure 1: W-2 Participation Trends at Odds with Budget Assumptions



The following facts help illustrate the budget bill's flawed assumptions relating to W-2:

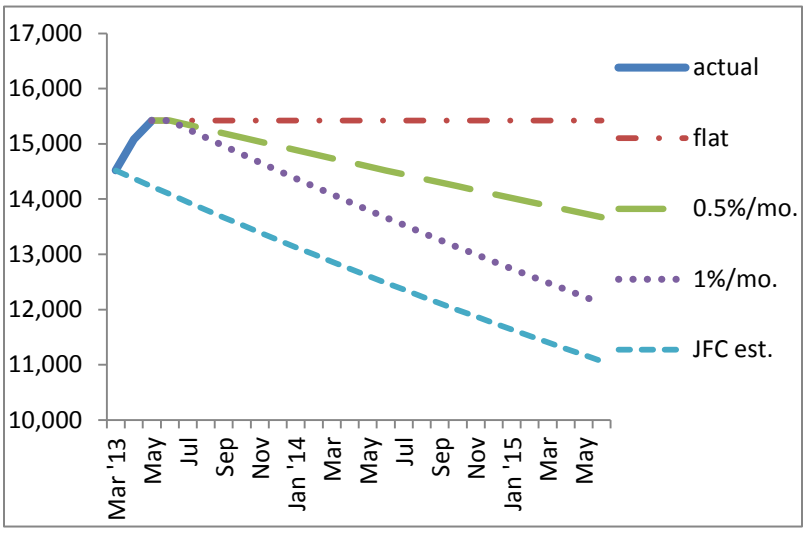
- The budget proposed by the Governor assumed that W-2 participation would decline by 1% every month, starting in January 2013 (for a total decline over a 30-month period of about 26%).
- By the time the Joint Finance Committee (JFC) reviewed the funding for W-2 and other TANF-funded parts of the budget, W-2 participation had climbed by 7.2% relative to the December 2012 level, and the average cost per case was also higher.
- Those facts prompted the budget committee to reduce the cut in TANF funding for W-2 to $13.4 million, instead of the $31.7 million cut recommended by the Governor. However, the reduced cut is based on the very optimistic assumption that the number of families receiving W-2 benefits would decline by 1% every month, starting in April.
- New data for April and May show that W-2 participation did not decline by 2% during that period, it rose by 6.2%.
- The May W-2 participation is almost 14 % above the December 2012 level and is 8.4% higher than the number that the current version of the budget bill assumed for May.

The growing divide between actual W-2 trends and the wishful thinking used to justify diverting TANF funding for other purposes has significant budget implications. The substantial W-2 growth is cutting into

the TANF balance that lawmakers assumed would be carried forward from the current fiscal year into the 2013-15 biennium, and it indicates pretty clearly that the budget bill significantly underfunds W-2.

Figure 2 and Table 1 compare four budget scenarios, all of which are relatively optimistic (from the perspective of lawmakers, not for potential W-2 participants) because they assume that the current growth in W-2 participation (+6.2% from march to May) levels off in June, and three of the four options assume participation begins a steady decline.

Figure 2: Four Scenarios for Reduced or Flat W-2 Participation



The four alternatives are:

Flat participation – Participation remains at the May 2013 level

0.5% decline – Participation holds steady in June and then declines 0.5% each month.

1% decline – Participation holds steady in June and then declines 1% each month (at the rate the Finance Committee assumed, but from a higher level).

JFC budget – Participation declines 1% each month, starting in April 2013.

Table 1 provides more detail about those four alternatives, including the cost of each during the 2013-15 biennium (assuming the cost per family remains the same). It shows that even under the very rosy scenario that participation levels off in June and then declines 1% every month, W-2 spending would be $14.7 million higher over the next two years than the Finance Committee assumed. A more realistic scenario is that participation continues to increase for a while, before beginning to decline enough that the average for the biennium is about the same as the May 2013 level. That would cost nearly $37 million more than the amount the current bill appropriates for W-2 (not counting the higher costs in the current fiscal year).

Table 1: Four Optimistic Budget Scenarios for W-2 Participation and Spending

	JFC	**-1%/month**	**-0.5%/month**	**flat**
When decline begins	April 2013	July 2013	July 2013	NA
Rate of decline (per month)	1%	1%	0.5%	0
W-2 families in June 2013	14,087	15.421	15.421	15.421
W-2 families in June 2015	11,068	12,116	13,673	15.421
Monthly average	12,454	13,633	14,493	15.421
Biennial cost ($s in millions)	$154.7	$169.4	$180.0	$191.6
Cost vs. JFC ($s in millions)	0	+$14.7	+$25.3	+$36.9

Conclusion – Now that we have two more months of data, it is clear that the Joint Finance Committee made very unrealistic assumptions about W-2 participation levels and cost. The fiscal problem this creates could be resolved very easily by not siphoning off TANF block grant funding to free up General Fund dollars for purposes such as tax cuts. The budget increases that diversion of TANF funding by almost $19 million per year.

Legislators have a fundamental choice to make. Are they going to use TANF funding for the purposes for which that block grant is intended, or are they going to divert as much as possible to maximize the size of income tax cuts that predominately benefit people making more than $100,000 per year?