WISCONSIN BUDGET PROJECT

Children's Issues in the 2015-17 Budget Bill

March 11, 2015

Budget decisions made by lawmakers help determine whether children in Wisconsin attend high-quality public schools, have access to health care when they need it, and live in financially secure families. By making investments in children today, lawmakers can ensure that Wisconsin will have a well-educated, healthy workforce in the future, laying the foundation for broad-based prosperity and economic growth down the road.

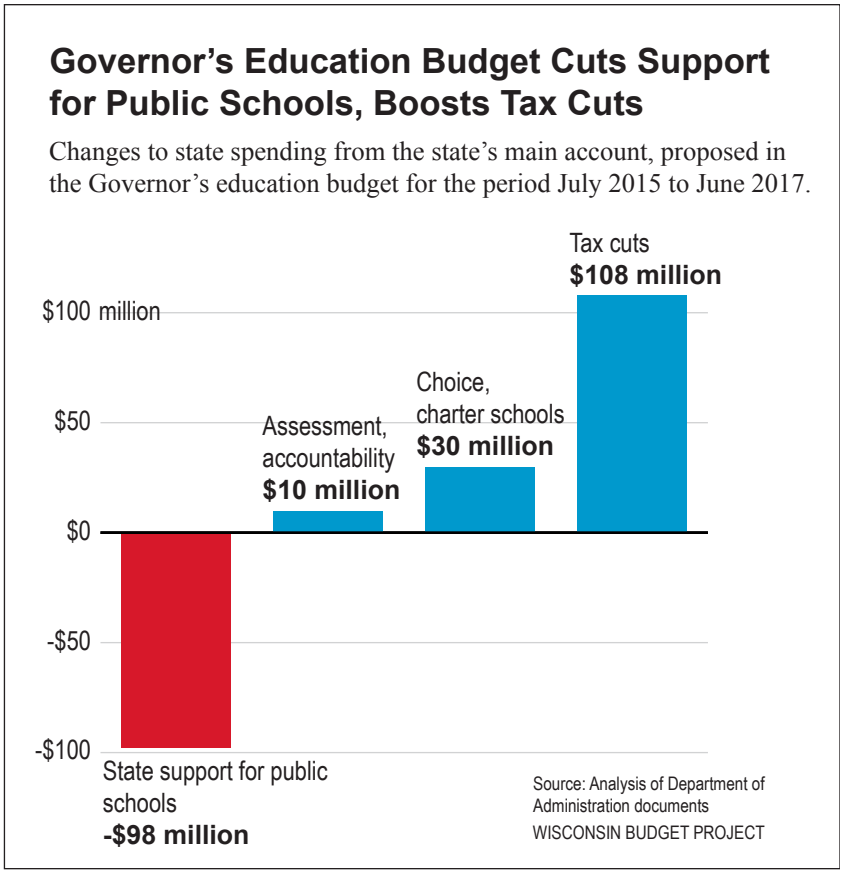
The budget bill proposed by the Governor affects children and families in significant ways. This budget summary describes many of those proposed changes, which will be reviewed by the Legislature's Joint Finance Committee over the next two or three months.

K-12 EDUCATION

Public school districts will struggle fiscally because of the following measures in the budget bill:

- **A $150 per student cut in 2015-16** – Because the per pupil aid the Governor proposes cutting is outside the formula for calculating revenue caps, the state funding that schools will be losing cannot be backfilled with local property tax funding.

- **No increase in revenue caps** – The bill freezes the state caps that restrict the total spending from property taxes and general (non-categorical) state aid. Although the bill increases general aid by $108 million in the second year, the frozen revenue caps mean that districts have to reduce property taxes to offset the increased aid. As the bar graph shows, the net effect of the aid increase is a $108 million property tax cut.



- **Removing limits on school choice vouchers and shifting funding to private schools** – The Governor proposes opening the voucher program to all families below 185% of the federal poverty level (about $45,000 for a family of four), which will increase spending for private schools in two ways. First, the bill appropriates an additional $17.2 million for vouchers over the next two years for the cost of students already in private schools and for other students not previously in public schools. Second, when a student

leaves a public school to attend a private school using a tuition voucher, aid to that school district is transferred to the private school.

There are a few positive aspects of the proposed funding for public schools, particularly for rural districts, which are helped by targeted assistance for the higher transportation costs in rural areas and an increase in "sparsity aid" for sparsely populated districts. Nevertheless, even rural schools are concerned that the net effects of all the school financing changes will be harmful.

The bill contains a number of changes relating to school accountability and student assessment, including the following:

- Ending the use of assessments aligned with the Common Core, a set of educational standards developed by states working together with the goal of establishing consistent educational standards.

- $5.0 million to implement a new assessment system developed by the American College Test (ACT), and $4.5 million to rework a variety of school accountability measures, including overhauling the report card system that shows how well schools and districts are meeting expectations.

Some of the other changes relating to K-12 education include the following:

- Creating a new oversight board at the state level that would authorize additional organizations to establish independent charter schools.

- Appropriating an additional $12.9 million (shifted from general school aid) to pay for the new board and additional students attending charter schools.

- Loosening teaching license requirements for grades 6 through 12. Anyone with a bachelor's degree, relevant experience, and demonstrated proficiency in a subject could obtain a teacher's license for that subject.

- Ending a voluntary racial integration program that helps racially balance Milwaukee's city and suburban schools.

HEALTH CARE

Although the Governor's budget proposes a number of changes that could significantly reduce BadgerCare participation among childless adults, it does not contain any negative changes to BadgerCare for children. That could change if Congress doesn't extend its current fiscal commitment to the Children's Health Insurance Program (CHIP) or eliminates the "maintenance of effort" (MOE) requirements that protect coverage of kids.

Repeal of the MOE requirements has been proposed by GOP leaders in Congress. If that change were approved, it would allow the Wisconsin Department of Health Services (DHS) to put in place eligibility restrictions and increased premiums for children that were enacted in the previous biennial budget. Those changes could cause more than 29,000 children to lose their BadgerCare coverage.

As we explain in our health care budget summary, the proposed biennial budget substantially increases state GPR funding for Medicaid. Most of the increase is for the much greater than anticipated enrollment of childless adults in BadgerCare and the Governor's decision not to accept the federal funding that would finance almost all of the cost of covering those adults in BadgerCare.

One of the consequences of rejecting the enhanced federal funding for Medicaid expansions, which would save $345 million during the 2015-17 biennium, is that the budget bill contains a number of significant spending cuts, including a couple that could adversely affect children's access to care:

- **Reducing Medicaid reimbursement for community clinics** – The budget bill proposes phasing in reduced reimbursements for Federally Qualified Health Centers (FQHCs) by using the Prospective Payment System (PPS) rate. DHS anticipates reducing spending for FQHCs by a total of about $24.8 million (all funds) over the next two years and by $28.8 million per year thereafter. FQHCs are concerned that the projected budget savings are based on a PPS rate that is not consistent with federal law.

- **Personal care services** – The budget proposes cutting spending for personal care services by a total of about $19.5 million over the next two years (including $7.5 million of state funding) by requiring an independent assessment for all fee-for-service prescriptions for personal care. This change is intended to help prevent fraud and abuse and make sure that members are getting the "right amount of care… at the right time and in the right setting." Advocates for the disabled and elderly say that the current system already includes a strong process to ensure that beneficiaries receive the correct type and amount of care and that the independent assessment will create a more burdensome and unnecessary hurdle.

The budget bill also contains a couple of positive measures relating to health care for children and adults:

- **Enhanced dental reimbursement pilot program** – The bill proposes a pilot program to increase reimbursement rate for providers of pediatric dental care and adult emergency dental services in three counties: Brown, Polk and Racine. Assuming a federal waiver is approved, the state cost of the pilot program over the biennium is expected to be $4.53 million GPR.

- **Narrowing the current waiting periods** – Current state statutes impose a 3-month waiting period after ending other insurance before some people can enroll in BadgerCare. The budget bill would repeal that restriction. Because the waiting period now affects very few people, DHS expects administrative savings from removing this impediment to offset the small cost of improving access to BadgerCare.

A cost-neutral proposal affecting services for children has generated mixed reactions from advocates, who are seeking more information about the change:

- **Children's Community Options Program** – The proposed budget would repeal the Family Support Program (FSP) and create a new Children's Community Options Program to assist families of children with long-term care needs. It would be financed by combining funding from FSP and the children's portion of the current Community Options Program. Advocates are seeking assurance that the revised program will retain the current flexibility and the focus on services for families (not just for kids).

EARLY EDUCATION

Funding for the Wisconsin Shares child care subsidy program has declined sharply since 2008-09 because of a 7-year freeze in reimbursement rates and other changes that have cut into payments to providers and limited the number of providers participating in Wisconsin Shares. The proposed budget begins to turn around or at least halt the long decline in spending for child care subsidies.

- The proposed funding level for Wisconsin Shares in the first year of the biennium is $6.8 million below the 2014-15 appropriation (although it is $6.9 million above the latest projection of actual spending, which has been far below the budgeted level for 2014-15)

- As the following table shows, spending for child care subsidies is budgeted to increase in the second year to a level $12 million above the current appropriation.

Proposed Changes in Wisconsin Shares Child Care Subsidy Amounts

In millions of dollars.

FISCAL YEAR	AMOUNT	CHANGE FROM 2014-15 BASE
2015-16	$267.9	-$6.8
2016-17	$286.8	+$12.0

Source: Analysis of 2015-17 budget bill WISCONSIN BUDGET PROJECT

The primary reason that child care subsidy spending is expected to increase in 2015-16 (relative to the latest estimate of actual spending in 2014-15) is that the Department of Children and Families (DCF) plans to continue a gradual increase in the payment rates for providers, which the department began in November 2014. Most of the increase in proposed subsidy spending in the second year of the biennium is a temporary effect of implementing a proposed electronic benefit transfer (EBT) Parent Pay initiative. That initiative will shift reimbursements to advance payments, which will cause a one-time $10 million increase in subsidy payments in 2016-17.

Other increases relating to child care spending include the following:

- A $1.2 million per year increase in **YoungStar** contracts to maintain current levels for rating, training, technical assistance, and micro-grants.

- An increase in administrative costs of about $4.5 million to begin the **EBT Parent Pay initiative**, which is expected to be implemented statewide in 2016-17. The proposed increase would finance Parent Pay vendor and IT costs. This new system has raised concerns among providers about complicating the process of getting reimbursed; however, the card system would also mean that providers would no longer be penalized when children are absent, which would help stabilize child care revenue.

WISCONSIN WORKS (W-2) & TANF-FUNDED PROGRAMS

The budget assumes that the Wisconsin Works caseload, which has declined significantly over the past year, will stabilize and the cost of continuing the program will be unchanged from the current fiscal year. However, the budget recommends several policy changes that will reduce W-2 participation and anticipated spending. The changes include the following:

- **Reducing the time-limit on benefits** – The bill would reduce the current lifetime limit on receiving W-2 benefits by 12 months, to a maximum of 48 months. This is expected to reduce spending for W-2 benefits by $1 million in TANF in FY 2016 and $2 million in the next year.

- **Drug screening and testing** – The Governor is proposing to require drug screening for non-custodial parents who apply for W-2 benefits or services and for applicants for the Transitional Jobs program and Transform Milwaukee program. If the screening creates a “reasonable suspicion” of drug abuse, a drug test would be required. Eligibility would be denied for anyone who refuses to take the test or tests positive and doesn’t participate in a treatment program.

- **W-2 sanctions** – The budget bill contains a number of other provisions that are likely to reduce participation, such as eliminating the requirement that W-2 participants be notified of sanctions and the reason for them, and then be given an opportunity to rectify the deficiency before the sanction is imposed.

The Governor's budget proposes adjustments to the current spending for several programs funded primarily from the welfare reform block grant known as Temporary Assistance to Needy Families (TANF). Among those are several changes based simply on re-estimates of the caseloads and costs over the next two years, including $1.1 million more for kinship care, a $4.7 million reduction for the caretaker supplement, and a $300,000 reduction for emergency assistance.

One of the positive portions of the DCF budget is that it adds $3 million to expand the **Transitional Jobs program**, which provides on-the-job training to low-income people. The increased funding will allow it to be expanded beyond Milwaukee County.

CHILD WELFARE, JUVENILE JUSTICE, AND CHILD SUPPORT

The proposed budget contains a number of other changes relating to services for children administered by the Department of Children and Families (DCF), including the following:

- **Transferring Youth Aids and juvenile justice** – The budget bill transfers from the Department of Corrections (DOC) to DCF the responsibility for overseeing community-based juvenile corrections, including the Youth Aids funding for counties. That transfer has the advantage of potentially improving coordination of community programs, but the disadvantage of dividing responsibility for community-based juvenile corrections and the state's institutional care for juveniles, which will continue to be administered by DOC.

- **Child welfare safety services** – The bill cuts the TANF portion of funding for these services by nearly $6.4 million over the next two years. That reduction reflects savings of almost $2.4 million annually from elimination of two contracts with the Bureau of Milwaukee Child Welfare (BMCW) and a re-estimate of payment rates for Milwaukee home safety services.

- **Milwaukee Child Welfare** – Thanks to an increase in the federal portion of funding for child welfare, spending for BMCW is expected to increase by close to $1.3 million (not counting the effect of the TANF reduction noted above), despite a cut in state GPR funding of $873,000. The bill would also change BMCW to a division within DCF.

- **Out-of-home care extension** – Legislation enacted last session phases in the extension of out-of-home care to certain youth over age 18 who would otherwise "age out" of foster care. The budget includes close to $1.9 million GPR to fund the second and third years of the phase-in, and it makes a number of statutory changes related to the extension of out-of-home care.

- **Domestic abuse services funding** – One of the positive measures of the DCF budget is a $5 million GPR appropriation in 2016-17 to increase the grant funding that provides assistance to victims of domestic abuse and their families.

- **Services for child victims of sex trafficking** – Another welcome addition to the proposed budget is the inclusion of $2 million in 2016-17 for treatment services for children who are victims of sex trafficking.

- **Children and Families Aids (CFA)** – The proposed budget recommends a small increase of about $1.1 million annually in this source of aid to counties for services related to child abuse and neglect, child welfare, and juvenile justice. Reductions of $6.25 million in state GPR support for the CFA allocation and $1.2 million of TANF funds are more than offset by an increase in federal funding.

- **Child support** – Thanks to the carryover of funding for an upgrade of the child support information system, total spending for the administration of child support activities would increase by $6.2 million in the coming biennium, despite a $250,000 cut in state GPR support, which also reduces federal matching funds. The cut in state support reflects a $250,000 GPR transfer to help finance TANF-related programs in the DCF budget.

FINANCIAL SECURITY

Several key sources of assistance for low-income families and unemployed workers have been squeezed by state policy choices over the last four years, and a couple of those will be further constricted or frozen by the proposed budget bill:

- **Homestead tax credit** – Spending for this important source of property tax relief for low-income households has been gradually declining because the formula used to calculate the credit isn't adjusted for inflation. (A provision indexing it for inflation was repealed in 2011.) As a result, spending for the credit is expected to decline by $8.8 million (3.7%) over the next two years.

- **Earned income tax credit (EITC)** – The bill continues to finance this tax credit for working families primarily by transferring funding from the TANF block grant, and it doesn't restore any of the EITC cut enacted in 2011. However, unlike the Homestead credit, the EITC grows with inflation, and total state and federal spending for the state EITC is projected to grow by 1% over the next two years (increasing the state portion of EITC spending by $2.2 million).

- **Unemployment insurance** – The state has made a number of changes in the last few years to reduce spending for unemployment insurance benefits, and the Governor's budget would continue that trend. The proposed changes include requiring some applicants to pass a drug test to receive benefits, increasing the penalties for fraud, and requiring the state to set rules about what types of jobs unemployed workers could turn down and still receive benefits.

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