Budget Issues Affecting Low-income Households in Wisconsin

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More than any other legislation, the biennial budget bill is how state lawmakers make and implement policy decisions that affect low-income and disadvantaged Wisconsin residents. It's in the budget bill that legislators typically make the choices that affect whether low-income families and individuals have access to affordable health care, resources to keep food on the table, and opportunities to climb the economic ladder.

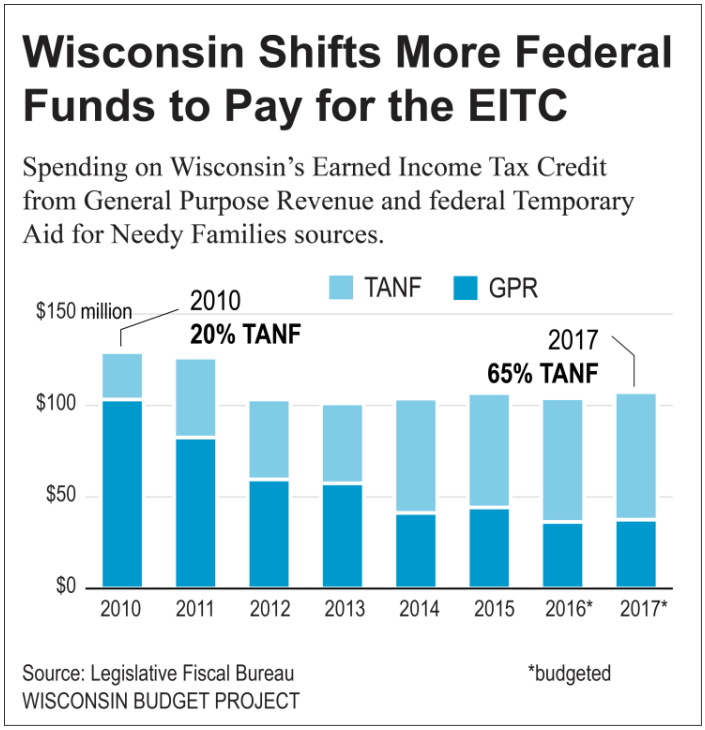
The state's budget choices are critical in determining whether the widening gap between wealthy and poor Wisconsinites continues to grow, or whether the state finally begins to narrow that gap. Research shows that reducing inequality and helping more people succeed is a better formula for sustained economic growth. By making investments today in our state's disadvantaged families, Wisconsin lawmakers can create a foundation for broad-based prosperity and future economic gains.

This document summarizes the portions of the final budget (2015 Act 55) that affect low-income and disadvantaged individuals in our state.

Financial and Food 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 final version of the budget bill:

- **Earned income tax credit (EITC)** – The bill maintains the state EITC cuts enacted in 2009, but uses less state funding by transferring an even larger amount of federal welfare reform block grant funds to the Dept. of Revenue to finance the credit. As amended by the Joint Finance Committee (JFC), that transfer grows by a total of $12 million over the next two years, and in the second year of the biennium it will be $44 million above the 2009-10 level. Because the bill substantially draws down the current balance of TANF block grant funds (in order to replace state general fund support of the EITC), lawmakers are creating a large gap between anticipated TANF spending and revenue in the 2017-19



biennium. That makes it likely that the state will have to reduce spending during that biennium for programs like Wisconsin Works (W-2) or the child care subsidy.

- **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 a total of $12 million over the next two years, dropping the estimated credits in 2016-17 to 5.3% below the amount in 2014-15.
- **Unemployment insurance** – The state has made a number of changes in the last few years to reduce spending for unemployment insurance (UI) benefits, and the Governor's budget includes new measures that will make it harder for jobless workers to receive UI benefits. The changes include: requiring some applicants to pass a drug test to receive benefits, substantially 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.
- **Food Share** – The bill directs the Dept. of Health Services (DHS) to request a waiver of federal rules that would allow Wisconsin to screen and, if warranted, drug test Food Share Employment and Training (FSET) participants. However, the budget doesn't set aside any funding to pay for the administration of drug screening and testing or to pay for drug treatment.
- **Living wage** – A measure added by the budget committee's final motion repeals a 102-year old statute relating to a "living wage." This change strips from the Department of Workforce Development (DWD) the authority and responsibility to investigate complaints that an employee is not being paid a living wage, and it replaces "living wage" with "minimum wage" throughout Wisconsin's laws. It ends the rule-making authority that was used by the Doyle Administration to increase the minimum wage.
- **Prevailing wage** – The Senate and Assembly added provisions to the budget that will severely weaken the current "prevailing wage" law, which sets the minimum salaries for construction workers when they build publicly-funded projects, such as schools and roads. These changes will exempt local governments from the law and will modify how the prevailing wage is determined for state-funded projects.

Health Care

The good news is that the budget bill substantially increases funding allocated for Medicaid – an increase of about $650 million in state revenue over the next two years. The bad news is that virtually all of the additional spending is simply to maintain the status quo. Most of that increase is for the rapidly rising cost of covering childless adults in BadgerCare. At the end of April, childless adult enrollment was a little over 157,000, which was about 60% above the level DHS was anticipating at the end of the fiscal year in June.

The sharp increase in spending for childless adult enrollment is particularly significant because federal funding would cover almost all of that cost if the state would set the BadgerCare income eligibility limit a little higher, at 138% of the federal poverty level. The Fiscal Bureau recently estimated that the decision not to expand BadgerCare coverage to that level will cost the state $360 million in the 2015-17 biennium.

Changes to childless adult coverage

Rather than expanding BadgerCare eligibility and harnessing Wisconsin's fair share of the funding for Medicaid expansions, the Governor is proposing to restrict coverage for adults who aren't caretakers of dependent children. His bill directs DHS to seek federal approval to make the following changes for the childless adult population:

- Imposing monthly premiums for all childless adults, and increasing premium amounts for "behaviors that increase an individual's health risk."
- Limiting their eligibility to 4 years.
- Requiring health risk assessments and drug screening as a condition of eligibility.

The bill doesn't attach any savings to the proposed changes. That may reflect the long odds that the state would be able to get a federal waiver for those restrictions, which conflict with federal Medicaid statutes. No other state requires drug testing or screening as a condition of Medicaid eligibility or sets a time limit on eligibility – after which the state would kick off enrollees, including those who have chronic conditions like diabetes, cancer or mental illness.

Health Care for Individuals with Disabilities and the Elderly

- **Family Care Reform** – The Governor proposed sweeping changes to Wisconsin's Family Care program. This Medicaid benefit provides long-term care services for eligible individuals with disabilities and the elderly. The changes proposed by the Governor, which require federal waiver approval, include expanding Family Care statewide and requiring the existing regional Family Care managed care organizations (MCOs) to operate statewide and provide coverage for acute and primary care services.

  Another part of the proposed long term care "reforms" was the elimination of IRIS (Include, Respect, I Self-direct), which is a program under Medicaid Home and Community Based Services that provides beneficiaries the opportunity and independence to budget and choose how/where they receive their long-term care services. In lieu of continuing IRIS, the Governor proposed that Family Care MCOs offer beneficiaries the option to self-direct their care.

  Disability and long term care advocates engaged in a vigorous and partially successful campaign against the proposed changes. Those advocates are still very concerned that the Legislature approved the essence of the plan to shift the delivery of long term care to large, for-profit insurers (with no constraints on their profit margins). They are also concerned that the IRIS program is being folded into the new managed care approach, rather than maintained as a separate optiong.

Personal Care Services – The Governor recommended altering the personal care services benefit by requiring an "independent assessment" for all fee-for-service prescriptions for personal care. Medicaid personal care services include an important range of services (usually provided in the home) for beneficiaries in need of assistance with activities related to daily living (ADLs) such as eating and drinking, bathing, transferring and help with household chores. The overall fiscal effect of this change to personal care services would result in a net cut of about $21.5 million (including $8.5 million of state funding).

The JFC voted to approve the Governor's recommendation, but delayed the starting date for the contract for the new third party independent assessor for personal care services. This change increases the projected net savings by $2 million, bringing the total reduction to the $21.5 million figure noted above. 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 they are concerned that the independent assessment will create an unnecessary hurdle.

- **SeniorCare** – Governor Walker proposed changing SeniorCare by requiring everyone enrolled in the program, which now serves about 85,000 low-income Wisconsinites, to enroll in the federal Medicare Part D prescription drug benefit. Advocates said the change would cost the typical SeniorCare user almost $700 per year because they would go from paying $30 a year to $60 a month. The Joint Finance Committee eliminated the proposed change, which would have reduced benefits by about $97 million over the next two fiscal years, though the state share of the savings would have been just $15.6 million GPR (because SeniorCare is primarily financed with drug rebates and federal dollars).

- **Aging & Disability Resource Centers (ADRCs)** –The Governor proposed significant changes to ADRCs, which help seniors and people with disabilities navigate complex benefit systems. His bill would have authorized DHS to eliminate county-run ADRCs by contracting out many of their functions to private, for-profit entities. Advocates were concerned that the changes might reduce access to information and that the information provided might be less trustworthy because private entities could have conflicts of interest. The Finance Committee decided to delete the Governor's recommendations, but included provisions requiring DHS to conduct a number of studies, including evaluating the reliability of the ADRC processes, an assessment of duplicative functions between ADRC boards and DHS procedures, and a study of possibly integrating income maintenance consortia and ADRCs.

- **Mental Health and AODA Services** – The Governor's budget proposed expanding Medicaid coverage to include residential-based substance abuse treatment. The Finance Committee modified the proposal by delaying its implementation to no sooner than July 1, 2016 or the date when the change wins federal approval (whichever is later), reducing the anticipated cost to $2.2 million GPR in 2015-16.

Changes in Provider Reimbursement

- **Enhanced Dental Reimbursement Pilot Program** – An initiative proposed by the Governor is a pilot program that would significantly increase the dental reimbursement rate for providers of pediatric dental care and adult emergency dental services in three counties: Brown, Polk and Racine. The budget committee expanded the pilot program to a fourth county (Marathon) and boosted the new funding to $5.4 million GPR. The implementation of increased reimbursement rates in selected counties will need federal approval.

- **Disproportionate Share Hospital Payments** – The bill adds $30 million GPR over the biennium to provide supplemental payments to hospitals that provide a larger or "disproportionate" share of care to Medicaid patients and the uninsured. This appropriation will draw down nearly $42 million in federal matching funds, and will help offset the negative impact of uncompensated care costs for about 60,000 adults who the state cut off BadgerCare

last year, many of whom haven't been able to afford the higher cost of switching to private coverage in the federal health insurance Marketplace. While assisting hospitals with the cost of uncompensated care makes sense, the much more effective and far less expensive way of doing so would be to expand BadgerCare and qualify for the enhanced federal funding.

- **Reimbursing Health Centers at the Prospective Payment Rate** - The Governor proposed changing the current reimbursement methodology for Wisconsin's Federally Qualified Health Centers (FQHCs) to a Prospective Payment System (PPS) rate. The administration proposed a rate change process that would be gradually implemented over three years. Those changes were initially expected to cost FQHCs $24.8 million in the 2015-17 biennium (in state and federal funding combined), and by about $27 million per year thereafter.

  The JFC chose to delay the Governor's proposal by one year. Under the JFC proposal the state will have to continue reimbursing FQHCs under their current payment methodology and rate until July 1, 2016 and DHS is required to consult with FQHCs as it develops the new payment system. The delay adds $6.5 million in state GPR costs and reduces the total estimated cut to FQHCs in this biennium by $9 million. FQHCs contend that the PPS rates being used to estimate the savings under the Governor's proposal are incorrect and aren't compliant with federal law because they don't reflect increases in the types of services that the CHCs offer.

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 reduced 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 $12.6 million below the 2014-15 appropriation (although it is expected to grow from the actual spending level, 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 $6 million above the current appropriation.

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.

Proposed Changes in Wisconsin Shares Child Care Subsidy Amounts (in millions)

FISCAL YEAR	AMOUNT	CHANGE FROM 2014-15 BASE
2015-16	$262.1	-$12.6
2016-17	$280.7	+$6.0

Source: WCCF Analysis of 2015-17 budget bill.

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. This new system has raised concerns among providers about complicating the process of getting reimbursed and cutting bonus payments for high quality programs. 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 essentially be flat over the next couple of years. Because the latest estimates for 2014-15 were recently reduced, the revised estimates for the next biennium are $12.6 million less than the Governor proposed.

In addition, the budget recommends several policy changes that will reduce W-2 participation and anticipated spending. The changes include the following:

- **Tightening the time-limit on benefits** – The bill reduces the current lifetime limit on receiving W-2 benefits by 12 months, to a maximum of 48 months, and also tightens the current authority for granting extensions. These changes are expected to reduce spending for W-2 benefits by $1 million in FY 2016 and $2 million in the next year.
- **Drug screening and testing** – If a federal waiver is approved, the bill will 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.
- **Emergency Assistance** – The bill reduces the Emergency Assistance (EA) appropriation by $300,000 based on a caseload re-estimate. More importantly, it requires the Dept. of Children & Families (DCF) to recover EA overpayments "by any legal means, including state income tax intercept or levy against property." The increased threat of being sued or having tax refunds intercepted could discourage families facing crises from applying for EA, which would lead to more families being evicted or homeless.

The budget includes adjustments to the current spending for several other 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, and a $4.7 million reduction for the caretaker supplement.

One of the positive portions of the DCF budget is that it adds $3 million to expand the **Transitional Jobs program**, which currently provides on-the-job training to low-income people in Milwaukee County. The increased funding will allow it to be expanded to several additional counties. As noted above, the bill also requires drug screening and testing as an eligibility requirement for the Transitional Jobs program (as well as participants in Transform Milwaukee and Children First).

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:

- **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 includes 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. The Finance Committee amended the bill by approving new standards that will make it easier for DCF to close child support cases. The primary rationale for the change is that closing old cases with uncollectible child support obligations will mean that Wisconsin collects support in a larger percentage of the ongoing cases, and that is expected to increase our share of federal performance-based bonuses.

Civil Legal Aid Funding

Under the Governor's budget, the state would not have provided direct state funding for civil legal aid for low-income families. Wisconsin would have been one of only 3 states not to provide any direct state funds for such aid, which in the past has enabled clients to recover at least $10 for each dollar of state support. The Finance Committee voted unanimously to provide $500,000 per year from the TANF block grant for civil legal aid.

Fees/Forfeitures on Low-income Drivers

The budget bill makes two changes that will create hardships for low-income drivers. First, it tacks a $25 forfeiture onto the $10 ticket for a number of minor violations that are currently exempt. Second, it eliminates similar exemptions from a $21.50 surcharge for court proceedings. Those changes will result in more impoverished people who are unable to maintain their drivers licenses – further complicating their efforts to work and support their families.

Conclusion

Although the budget includes some positive measures for low-income and disadvantaged Wisconsinites, those provisions are outweighed by many areas of cuts and frozen appropriations. We're particularly concerned about the changes the Governor is seeking to make to BadgerCare coverage for childless adults and the increased use of federal welfare reform funds from the TANF block grant to supplant state funding for Wisconsin's earned income tax credit (EITC).

The use of a temporary balance of TANF funds to finance the state EITC creates a substantial gap between ongoing TANF revenue and spending commitments in the 2017-19 biennium, which could necessitate cuts in programs for low-income households, such as the Wisconsin Works program and the child care subsidy program. If the needed federal approval is obtained, the proposed changes to BadgerCare for childless adults would result in a sharp reduction in BadgerCare participation and a substantial increase in the percentage of Wisconsinites who are uninsured.

These and other negative changes are all the more disappointing because they could easily be avoided by making other choices, such as expanding BadgerCare and capturing Wisconsin's fair share of the funding that taxpayers here and elsewhere have been sending to Washington to finance coverage expansions for low-income adults.

On balance, the budget choices made by the Governor and legislators will hurt low-income individuals and households and will widen the growing income disparities in our state. That's particularly disappointing because the damaging budget cuts could have could have easily been avoided by expanding BadgerCare to cover more low-income adults, which would save an estimated $360 million during the upcoming budget period by enabling our state to tap into the funding we have been paying into the federal treasury for the financing of Medicaid expansions. Even though the budget bill has passed, it's not too late to reconsider that decision and enact policies that create broader-based economic security and a stronger foundation for economic growth in Wisconsin.

Jon Peacock
WCCF research director