



Supports for Low-Income Families

Jon Peacock, Sept. 3, 2009

Notwithstanding the state's severe budget challenges, policymakers were able to protect key safety net programs and even make some modest improvements in programs serving low-income families. Elsewhere in this newsletter we summarize the budget decisions relating to the health care safety net and the child care subsidy program. This article examines the budget provisions relating to the Wisconsin Works (W-2) program, child support, and tax credits for low-income families.

Wisconsin Works

The Governor proposed a number of positive policy changes in the W-2 program, but no funding increase for caseload growth, despite the impact of the recession on the number of families in need. The Legislature didn't approve all of the proposed policy changes, but added a couple of others and increased funding to reflect an increase in projected recipients of W-2 benefits. The following are the more significant W-2 issues that were debated during the budget process:

- *Cash caseload funding* – The Legislature added funding for W-2 cash benefits in order to reflect higher projections of participation. The increase for the biennium amounts to a little over \$12 million, which is the cumulative effect of a 12.2 percent increase in 2009-10 and 3.3 percent the following year. (Those figures don't include an additional \$1.4 million for the next change.)
- *Benefits for women in at-risk pregnancies* – The Legislature finally approved a proposal that the Governor has advocated for many years – allowing women who are told by their doctors that they cannot work due to the at-risk nature of their pregnancy to receive a W-2 cash benefit during the third trimester of their pregnancy. A total of \$1.4 million over the biennium is allocated for this change.
- *Emergency assistance* – The Governor sought a one-time increase of \$1 million (above the \$6 million base) for W-2 emergency assistance in 2009-10. The Legislature approved a \$500,000 increase.
- *Extending benefits for parents of infants* – The Legislature did not approve the Governor's proposal to allow mothers receiving the caretaker of newborn infants benefit to stay home until the infant is 6-months old, instead of the current 12 weeks.
- *Transitional jobs* – An amendment adopted late in the budget process substantially expands the transitional jobs pilot program, using federal funding to broaden it to serve 2,500 people. This program, which isn't limited to W-2 participants, provides real work experience, opportunity for continued work with the employer, and eligibility for the federal and state earned income tax credits. The amendment also requires the Dept. of Children and Families to start a new subsidized private sector employment program in 2011.

- *Time limits* – The bill retains Wisconsin’s current 5-year cumulative time limit for receipt of assistance, but removes the 24-month limit for participation in a particular W-2 category (i.e. community service job, trial job, or a transitional job placement). Many people have been getting exemptions from that limit, which proved to be too restrictive because W-2 has not offered the sort of ladder of options for participants that the original architects of the law envisioned.
- *Learnfare* – In the absence of data indicating that Learnfare requirements have been effective in modifying the school attendance of children in families participating in W-2 participants, the Executive Budget proposed removing them as being unnecessary administrative burdens on agencies and potentially harmful to other children in the family. The Legislature rejected that change.

Child Support

The bill includes a couple of significant provisions relating to child support that will be important for low-income families:

- *Child support enforcement funding* – The bill provides a net increase of about \$28 million for child support enforcement, which primarily comes from a provision in the federal stimulus bill that reversed a large cut in child support funding made several years ago. Like other state fiscal relief in the stimulus bill, it is a temporary change.
- *Pass-through of payments* – The bill takes advantage of a change in federal law to increase the pass-through of child support payments. Currently, recipients of W-2 cash benefits or the Caretaker Supplement receive only 41 percent of the child support collected on their behalf, but the bill increases that to 75 percent, effective on October 1, 2010.

Tax Credits

The budget bill significantly increases funding for both of the state’s refundable tax credits for low-income households. Most of the increased funding simply reflects a growing number of eligible people. However, the bill also makes several policy changes.

Homestead tax credit – The Homestead Tax Credit provides well-targeted property tax relief for renters and homeowners with household income under \$24,500. Act 28 increases funding for the program and makes a couple of significant policy changes:

- It increases funding for the credit by \$29.4 million in 2009-11, to keep up with increased cost resulting from declining household incomes and increases in property taxes.
- The bill will prospectively adjust the credit for inflation, which is a change WCCF has sought for many years.
- It increases the credit for families with children by about \$1 million per year, starting in FY 2011 (by raising the deduction from household income to \$500 per dependent, instead of \$250).

Earned income tax credit – The budget bill provides an even larger increase in funding for the state Earned Income Tax Credit (EITC), a boost of \$55.5 million over the next two years. That increase doesn’t result from a state level policy change, but roughly three-fourths of the spending hike is indirectly caused by changes made in the federal stimulus bill to the federal EITC, to

which the state credit is tied. That bill increased the federal credit for families with three or more kids and slowed the phase-out for married couples as their income increases, thereby reducing the marriage penalty. Whether those changes are made permanent remains to be seen.

Over the longer haul, state and federal EITC expenditures in Wisconsin will also be affected by the provisions in the budget bill expanding the transitional jobs program and creating a new subsidized private sector employment program in 2011. Participants in those programs will be eligible for the EITC, which is not currently the case for most W-2 participation. The LFB estimates that the new employment programs will add \$2 million per year to the cost of the state EITC in the 2011-13 biennium.

The budget bill also authorizes individuals who claim the federal EITC and who receive an advance payment of that credit to request that their employer adjust their paycheck so that they receive an advance payment of their state EITC.

Conclusion

Although we are very concerned about some of the broad cuts made by the budget in support for state programs and local aid, we are pleased that the Governor and Legislature generally protected the key programs for Wisconsin's low-income families and workers who have recently lost their jobs.

One disappointment is that the bill makes very conservative assumptions about the effects of the recession on W-2 caseloads and the need for W-2 emergency assistance. Fortunately, legislators did increase the funding for W-2 cash benefits a bit, but the bill barely touches Wisconsin's share of the \$5 billion TANF Contingency Fund in the federal stimulus bill, which will finance 80 percent of increased state spending for caseloads, training or emergency assistance. Tapping into those funds is an issue the state should revisit in the months ahead.

Jon Peacock
Research director