

Schedule 13

Department of Human Services

Funding Request for The FY 2020-21 Budget Cycle

Request Title

R-12 Subsidized Employment Continuation

Dept. Approval By:

Supplemental FY 2019-20

OSPB Approval By:

Budget Amendment FY 2020-21

X

Change Request FY 2020-21

Summary Information	Fund	FY 2019-20		FY 2020-21		FY 2021-22	
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation	
	Total	\$4,000,000	\$0	\$0	\$4,000,000	\$4,000,000	
	FTE	0.0	0.0	0.0	0.0	0.0	
Total of All Line Items Impacted by Change Request	GF	\$0	\$0	\$0	\$0	\$0	
	CF	\$0	\$0	\$0	\$0	\$0	
	RF	\$0	\$0	\$0	\$0	\$0	
	FF	\$4,000,000	\$0	\$0	\$4,000,000	\$4,000,000	

Line Item Information	Fund	FY 2019-20		FY 2020-21		FY 2021-22	
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation	
	Total	\$4,000,000	\$0	\$0	\$4,000,000	\$4,000,000	
	FTE	0.0	0.0	0.0	0.0	0.0	
07. Office of Self Sufficiency, (B)	GF	\$0	\$0	\$0	\$0	\$0	
Colorado Works Program, (1) Colorado Works Program -	CF	\$0	\$0	\$0	\$0	\$0	
Employment Opportunities with	RF	\$0	\$0	\$0	\$0	\$0	
Wages Program	FF	\$4,000,000	\$0	\$0	\$4,000,000	\$4,000,000	

Auxiliary Data

Requires Legislation? NO

Type of Request?

Department of Human Services
Prioritized Request

Interagency Approval or
Related Schedule 13s:

No Other Agency Impact

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Department Priority: R-12
Request Detail: Subsidized Employment Continuation

Summary of Incremental Funding Change for FY 2020-21			
	FY 2019-20	FY 2020-21	FY 2021-22
Total Funds	\$0	\$4,000,000	\$4,000,000
FTE	0.0	0.0	0.0
General Fund	\$0	\$0	\$0
Cash Funds	\$0	\$0	\$0
Reappropriated Funds	\$0	\$0	\$0
Federal Funds	\$0	\$4,000,000	\$4,000,000

Summary of Request:

The Department of Human Services requests \$4,000,000 total funds/federal Temporary Assistance for Needy Families (TANF) funds for FY 2020-21 and beyond. The funding will continue the Employment Opportunities with Wages program, created by SB 17-292 (as sponsored by the Joint Budget Committee). Ongoing funding will enable the Department to continue to connect public assistance recipients with employment opportunities. This request represents a 0% increase over the FY 2019-20 appropriation.

This program achieved the highest rating for evidence in Pew's Results First Clearinghouse. There is strong evidence that transitional and subsidized jobs programs increase employment and earnings for low income adults, youth, unemployed individuals, TANF recipients, and recently released former prisoners for the duration of their subsidized position. National data indicates that a subsidized employment program will generate \$4 of economic activity in Colorado communities for every \$1 invested. The program is between level 3 and 4 on the evidence continuum scale.



Current Program:

The federal Temporary Assistance for Needy Families (TANF) program, known locally as Colorado Works, provides cash assistance, employment services, and supportive services to economically vulnerable families with the primary goal of stabilizing those families and moving them out of poverty by promoting employment opportunities. In Colorado, these services are delivered through a State-supervised/county-administered framework, providing flexibility to counties to design services to meet their communities' needs. Colorado receives a \$136.1 million federal TANF block grant annually.

SB 17-292 provided an investment in the subsidized employment program, Colorado Works Subsidized Training and Employment (CW STEP), directly benefiting families via immediate income and on-the-job experience to facilitate future employment. Furthermore, national data indicates that a subsidized employment program will generate \$4 of economic activity in Colorado communities for every \$1 invested.

CW STEP Funding Background:

- Annual receipt of the TANF block grant and Contingency Funds, combined with county spending patterns, has bolstered the Colorado Works Long-term Reserve to approximately \$75 million at the beginning of FY 2019-20. The Department estimates this level of reserves is sufficient to maintain program solvency for several years, even in the event of a dramatic funding change.
- Federal law allows states to spend TANF funds on employment, education, and training activities to prevent participants from cycling on and off cash assistance. Colorado spends a very low percentage of TANF funds (2.6%) on employment-specific activities. CW STEP has helped to bolster this spending to 3.5% of total expenditures in federal FY 2018-19 and reduce poverty among struggling Colorado families.
- The federal government requires states to engage TANF recipients in a minimum number of work activities and hours each month. As a qualifying employment activity, CW STEP program is assisting Colorado in this requirement.
- Subsidized employment is a proven strategy, with evidence from a number of state programs (e.g. California, Illinois, Minnesota, Wisconsin, among others (Georgetown Center for Poverty and Inequality-Dutta-Gupta/Grant/Eckel/Edelman, 2016)). Colorado's homegrown HIRE and ReHire Colorado programs have demonstrated positive outcomes in the areas of sustained employment and family stability. CW STEP is now beginning to lend data to the body of evidence per subsidized employment.
- Furthermore, subsidized employment has the highest rating on Pew's Results First Clearinghouse. There is strong evidence that transitional and subsidized jobs programs increase employment and earnings for TANF recipients (as well as other low income adults, unemployed individuals, and recently released former prisoners) for the duration of their subsidized position ([Mathematica-Maxwell 2015](#), [EMC-Roder 2013](#), [OPRE-Butler 2012](#), [MDRC-Jacobs 2012](#), [OPRE-Redcross 2012](#)).
- Significant discussions at the federal level have included proposals to expand work requirements and, most importantly, provide viable work experience and skills to help TANF recipients to weather future economic downturns.

Problem or Opportunity:

CW STEP provides several tangible opportunities to the Department:

Programmatic Opportunity

TANF is both a cash assistance/safety net program and an employment-focused program. Yet, competing demands for resources within Colorado's county-administered framework results in uneven approaches to serving families, especially within the broad realm of employment. More than twenty years after "welfare reform" – and with no new funds available – the Department is continuing its efforts to strengthen the Colorado Works program's employment focus, while meeting the federal Work Participation Rate requirement. Collectively, Colorado spent \$10.7 million (2.6% of total expenditures) on employment and training activities in federal FY 2017-18 and is projected to increase such spending to \$14.5 million (3.5% of total expenditures) in federal FY 2018-19. Colorado is only spending a fraction of the national average of 10.5% of TANF expenditures on employment and training activities. In fact, Colorado's limited investment in employment and training activities has been noted by the federal government, making this ongoing investment in subsidized employment a prudent way to address this gap within a framework of proven positive outcomes from subsidized employment. Ultimately, CW STEP increases participants' wages within a framework of complying with federal requirements.

Subsidized employment is a valuable employment strategy designed to transition people with significant labor market barriers (e.g. limited experience, low skills, prior criminal record, disabilities, etc.) into work using wage-paid employment that combines real work, skills development, and supportive services. The subsidized wages act as a "trial period" for an employer to take a risk on an employee who may have been overlooked in an application review. At the same time, subsidized employment supports employers' bottom-lines, encouraging and promoting job creation by testing the viability of a new position or shifting responsibilities. Additionally, subsidized employment yields a high return on the investment. National estimates indicate that a subsidized employment program will generate \$4 of economic activity in Colorado communities for every \$1 invested.

Participant Opportunity

At the participant level, a good job paying a livable wage, is the clearest path out of poverty and reliance on Colorado Works and other public assistance. CW STEP is promoting those outcomes. The work experience and basic workplace skills gained through on-the-job experience have a strong correlation to one's likelihood of securing employment. Despite the currently strong economy, many Coloradans continue to struggle. While the statewide unemployment rate has fallen to 3.3%, the measure of labor underutilization (i.e. rate of individuals who are unemployed, marginally attached, or have dropped out of the workforce due to lack of opportunities) in Colorado is 6.5%¹. The unemployment rate among Coloradans with at least some higher education is close to half of that among those lacking a high school credential (diploma or GED). Poverty rates among similar education demographics are nearly three times higher for people with no high school credential. Among the Colorado Works caseload, approximately 75% of adult participants are unemployed, many of whom have never

¹ Bureau of Labor Statistics, Local Area Unemployment Statistics, Alternative Measures of Labor Underutilization for States, Second quarter of 2018 through First Quarter 2019 Averages, April 2019

been gainfully employed. Therefore, many able and willing, albeit low- or unskilled, Colorado Works recipients will benefit from the ongoing investment in CW STEP.

Maintaining the State's investment in subsidized employment will promote employment, increase targeted spending in employment and training activities, and continue to elevate Colorado as a national leader in subsidized employment. Additionally, continuing CW STEP will augment the baseline of effective, value-added employment and training services available to eligible Colorado Works participants, regardless of fiscal dynamics or other prevailing conditions among counties' Colorado Works programs.

Compliance Opportunity

Subsidized employment connects more Colorado Works recipients with a qualifying work activity. This strategy assists Colorado to meet the federal Work Participation Rate (WPR) requirement in an evidence-based, sustainable way.

In May 2015, the federal Administration for Children and Families (ACF) informed the Department that Colorado had failed to meet the federal WPR for FFY 2012-13. Subsequent notices have been received for FFYs 2013-14 through 2015-16. The only guaranteed way to avoid a penalty is by meeting the federal WPR. The Department has placed significant effort – including implementation of CW STEP – to move the compliance needle, while simultaneously translating into stronger employment and economic outcomes. Colorado anticipates being in full compliance in FFY 2017-18 and FFY 2018-19, partially due to the increased hours reported by CW STEP participants. These were the first two federal fiscal years that include the new CW STEP program.

Financial Opportunity

The Department estimates that currently available and unappropriated TANF funds can support CW STEP for at least the next four years, through FY 2023-24 (see Table 3). Moreover, unappropriated TANF funds are missed opportunities to address poverty in Colorado communities and bolster economic security across the State. In the event of changing economic circumstances or federal changes in grant amounts, all TANF funded programs will be reviewed and funding adjustments will be recommended.

Maintaining the infrastructure for subsidized employment maintains Colorado as a national leader in the subsidized employment arena.

Proposed Solution:

The Department requests \$4,000,000 total funds/federal TANF funds and 0.0 FTE in FY 2020-21 and beyond. This strategy utilizes available, unappropriated federal TANF funds to continue funding the CW STEP program, successfully connecting Colorado Works recipients with real-time, wage-bearing employment and training opportunities. The Department administers the existing CW STEP program in coordination with counties and the Colorado Workforce Development Council. The program was initially created for three years, and is currently set to expire at the end of FY 2019-20.

In its first year of implementation (FY 2017-18), CW STEP's goal was to serve 445 Colorado Works participants, subsidizing up to 400 hours of employment over a six month period. Since the program began, it has placed 571 participants in subsidized employment. Among those placements, 260 individuals have exited to unsubsidized employment (employer paid wages) at a median wage of \$12.08/hour.

The program is managed through a contract with the Colorado Department of Labor and Employment, providing services to participants receiving cash assistance to attain a living-wage through subsidized employment, apprenticeships, on-the-job training, and transitional jobs. This process avoids duplication of services. Available funds are used to help pay prevailing wages for Colorado Works participants engaged in eligible subsidized employment activities. Colorado Works recipients who are identified as subsidized employment candidates are referred to their Workforce Center for services. Participants are served via program funds that have been allocated proportionately among vendors (workforce centers and third-party vendors) operating the program.

This initiative draws on Workforce Center's expertise in industry sectors and relationships with employers. The Department of Labor and Employment (CDLE) makes the funds available to counties, through the Workforce Centers, to pay wage subsidies to Colorado Works participants.

Ultimately, maintaining the CW STEP program will provide significant, multiple returns on the investment to support Colorado citizens, communities, and employers. Subsidized employment builds skills, increases likely attachment to the labor market, and is a proven strategy to connect low- and unskilled workers earning very low wages to attain and retain gainful employment. Subsidized employment supports employers and local economies to thrive so a subsidized employment program will generate \$4 of economic activity in Colorado communities for every \$1 invested as indicated by national estimates.

Anticipated Outcomes:

The Department anticipates two primary outcomes to result from continuing CW STEP:

1. Low-skilled Colorado Works recipients will gain on-the-job experience and earned income; and
2. The State will ensure compliance with the Work Participation Rate. While Colorado Works participants are gaining vital employment skills to enable ongoing sustainable employment, those hours will increase employment entry and bolster the State's work participation rate.

Community outcomes are also anticipated. However, these types of outcomes are more difficult to attribute directly to wage subsidies. Yet, national subsidized employment programs have demonstrated returns on investment to local economies through increased taxes collected, reduced public assistance benefits, and reduced return to public assistance.

The Department is currently evaluating the results and will have initial results of the existing program in the Fall of 2019 and will provide a report to the legislature by October 15, 2019.

Assumptions and Calculations:

Wage subsidies will be paid at the prevailing wage for a particular job within an industry sector, as determined by employer hosts and labor market data, on average \$12.15/hour. The Department will contract funds directly to CDLE and in turn, Workforce Centers will serve participants referred from county departments. Counties will not be required to contribute Maintenance of Effort funds in exchange for the use of these federal TANF funds. Table 1 and Table 2 provide detail on the program costs based on current program expenditures.

Table 1: Wage Calculation		
A	Average wage (Family of 4 to be at the federal poverty level)	\$12.15
B	Number of participants (maximum of 400 hours)	720
C	Maximum wages to any individual	\$4,860
D	Total subsidized employment wages (row B x row C)	\$3,499,200

Table 2: Program Costs		
A	Subsidized Wages (Table 1, row D)	\$3,499,200
B	Local Program Administration (10% of total appropriation, \$4M)	\$400,000
C	Evaluation costs (2.5% of total appropriation, \$4M)	\$100,000
D	Total Expenditures	\$3,999,200

The Department has used the following assumptions in projecting outcomes:

- Average monthly participation in subsidized employment: 360 participants, for an annual total of 720 participants.
- Total adults (work-required) on the Colorado Works caseload: 13,500.
- Total percentage served: 5.3%.
- Increased “employment entry” among the Colorado Works caseload: approximately 3%.
- If all 720 participants meet the minimum WPR participation requirement, this program would increase the average WPR by approximately 5%.

Under current statute, the program is set to expire at the end of FY 2019-20. This request will extend the program for FY 2020-21 and beyond.

Program funding will be from awarded and unappropriated federal TANF funds. Table 3 presents the projected TANF Long-term Reserve balances through the next four years. Based on the federal awards and appropriation assumptions, available reserves will be sufficient to fund this request.

Table 3: TANF Long-term Reserve Projection				
	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Beginning TANF Long-Term Reserve	\$75,917,476	\$58,329,534	\$53,574,295	\$48,819,056

Federal Grant Awards	\$148,056,690	\$148,056,690	\$148,056,690	\$148,056,690
Appropriations	\$165,644,632	\$152,811,929	\$152,811,929	\$152,811,929
Ending Long-Term Reserve	\$58,329,534	\$53,574,295	\$48,819,056	\$44,063,817

Table 4 provides the Long Bill appropriations table.

Table 4. Long Bill Appropriation and Requested Funding for FY 2020-21 and Beyond						
Line Item Employment Opportunities with a Wage	FTE	Total Funds	General Fund	Cash Funds	Reapprop Funds	Federal Funds*
FY 2019-20 (SB19-207)	0.0	\$4,000,000	\$0	\$0	\$0	\$4,000,000
Requested Funding	0.0	\$4,000,000	\$0	\$0	\$0	\$4,000,000
FY 2020-21 and Beyond Total Requested Appropriation	0.0	\$4,000,000	\$0	\$0	\$0	\$4,000,000