Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2023 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **23-4243/2**	Introduction Number **SB-0426**

Description
creating a child care reimbursement account program, providing an income tax subtraction for certain contributions to a child care reimbursement account, and granting rule-making authority

Fiscal Effect

State:

☐ No State Fiscal Effect
☒ Indeterminate
- ☐ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☐ Decrease Existing Revenues
- ☒ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☒ No
- ☐ Decrease Costs

Local:

☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
   ☐ Towns ☐ Village ☐ Cities ☐ Counties ☐ Others ☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☐ GPR ☐ FED ☒ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations
20.144(1)(g)

Agency/Prepared By	**Authorized Signature**	**Date**
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Fiscal Estimate Narratives

DFI 9/8/2023

LRB Number **23-4243/2**	Introduction Number **SB-0426**	Estimate Type **Original**
Description creating a child care reimbursement account program, providing an income tax subtraction for certain contributions to a child care reimbursement account, and granting rule-making authority		

Assumptions Used in Arriving at Fiscal Estimate

The proposed legislation would require the Department of Financial Institutions to establish a program through which individuals could open and make pre-state tax contributions to "child care reimbursement accounts," which may be used to pay for qualifying expenses of dependents under the age of 13 incurred during the calendar year that the contribution was made. Any contributions not used for eligible expenses incurred during the same calendar year are forfeited. The legislation calls for the Department to contract with a third-party vendor to administer the program, and it authorizes the vendor to charge fees to participants and to retain any contributions that participants fail to apply to eligible expenses incurred by the end of each calendar year.

The analysis provided in this estimate based on limited information. While the Department has administrative familiarity with long-term savings accounts through its College Savings Program, it does not have comparable experience or insight into the costs associated with administration of shorter-term spending accounts. And while a number of state governments (including Wisconsin) and other employers offer child care reimbursement accounts to employees, the Department has not been made aware of state programs that offer this benefit to the public at large. Therefore, the Department cautions that the analysis below is tentative and subject to change based on additional relevant information and feedback.

Costs to retain an initial vendor. The legislation contemplates that the vendor will recoup its administrative costs through fees and forfeitures from program participants, rather than taxpayers. This may be an achievable outcome over time provided the program attracts sufficient participants, but initially the program would begin with no participants – and thus no fee generation – to cover the initial start-up and administrative costs.

The Department discussed this challenge last year in the context of exploring options to establish a state ABLE program. See DFI's REPORT AND RECOMMENDATIONS ON ESTABLISHING AN ABLE PROGRAM FOR WISCONSIN RESIDENTS (filed Sep. 1, 2022). As noted in that report, states seeking to implement statewide ABLE programs have struggled to attract program vendors in recent years, with some finding it necessary to offer annual subsidies and other incentives to retain qualified vendors. For that and other reasons, the Department recommended that the state achieve immediate scale (and avoid the need for vendor subsidies) by joining an existing collaboration of other states served by a single ABLE program vendor.

Joining a collaboration of other states is not an option provided in this proposal, however, and the Department anticipates that public funding to help cover the vendor's expenses to operate the program in its early stages could be necessary in order to retain a qualified vendor. Due to limited experience regarding programs in this context, the Department is unable to fairly estimate whether and to what extent a qualified vendor may demand to ensure that it can cover the costs of administering the program.

Marketing costs. While employers can educate a "captive audience" of employees about optional benefits during annual enrollment periods and mandatory workplace events, the Department and the program vendor need to engage in external marketing efforts to reach potential participants and grow the program. Based on its experience with the college savings program, the Department estimates that a strategic marketing campaign to promote the program would cost at least $500,000 annually, which may decrease over time as the public's familiarity and experience with these accounts grows. A potential vendor may be willing to assume the costs of marketing the program if the contract is structured in a way that provides the vendor some assurance of a return on its marketing investment, but that remains speculative at this point.

Internal staffing costs. While many of the operations of the program will be carried out by the vendor, Department staff would be responsible for administering the contract with the program vendor, overseeing its performance, addressing complaints, promoting the program to potential participants, coordinating with other state agencies and boards that reach eligible participants, serving as an information hub for members of the public with questions about the program, and promulgating administrative rules relating to the program. The Department anticipates that these duties could be undertaken by a qualified program officer with relevant financial, marketing, and oversight experience, at an annual cost of $114,400 – consisting of $68,100 in salary and $26,300 in fringe benefits for the officer and $20,000 for training, travel expenses, and conferences.

Conclusion. For the reasons explained above, the Department estimates that its annual costs to administer the program would be $114,400, plus indeterminate sums needed to (1) retain a qualified third-party vendor for the program, and (2) engage in marketing efforts to promote participation in the program.

Long-Range Fiscal Implications

Wisconsin Department of Administration
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Fiscal Estimate Worksheet - 2023 Session

Detailed Estimate of Annual Fiscal Effect

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$94,400	$
(FTE Position Changes)	(1.0 FTE)	
State Operations - Other Costs	20,000	
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	**$114,400**	**$**
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS (20.144(1)(g))	114,400	
SEG/SEG-S		

III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)		
	Increased Rev	Decreased Rev
GPR Taxes	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$**

NET ANNUALIZED FISCAL IMPACT		
	State	Local
NET CHANGE IN COSTS	$114,400	$
NET CHANGE IN REVENUE	$	$

Agency/Prepared By	**Authorized Signature**	**Date**
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