

THE SENATE FINANCE COMMITTEE'S "TRI-PARTISAN" TANF REAUTHORIZATION BILL

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Overview

On June 26, 2002, the Senate Finance Committee approved TANF reauthorization legislation on a 13-8 vote. Three Republicans — Senators Hatch (R-UT), Snowe (R-ME), and Murkowski (R-AK) — and Senator Jeffords (I-VT) joined all of the Democrats on the Finance Committee, except Senator Daschle (D-SD), in supporting the bill. The Finance Committee's bill is based on the provisions of the so-called "Tri-partisan Agreement," a set of changes to the TANF law agreed upon earlier this year by Senators Hatch, Snowe, Jeffords, Breaux (D-LA), Lincoln (D-AR), and Rockefeller (D-WV).

This paper analyzes the Senate Finance Committee bill. It finds:

- *The bill would require states to increase the number of families engaged in welfare-to-work programs substantially. States would be required to have 70 percent of their TANF caseload in work activities in 2007 and have Individual Responsibility Plans in place for all TANF parents and caretakers.*

- *While the Senate Finance bill would hold states accountable for much higher work targets than exist under current law, the increased work requirements in the Senate bill are coupled with expanded flexibility to provide welfare-to-work services that help recipients find better-paying jobs and address barriers to employment.*

By expanding state flexibility, the Senate Finance bill would allow states to meet the increased work rates by building on and improving existing state strategies to help parents prepare

for, find and retain employment. In contrast, the House bill would sharply *limit* the types of work activities that states could utilize to meet the TANF law's work

Table of Contents

Overview	1
Work Requirements.....	5
Family Formation	14
Child Support Enforcement	18
Legal Immigrant Eligibility	
Options	19
Transitional Medical Assistance.....	21
Supplemental Housing Benefits	22
TANF Funding	23
Child Care Funding	26
Conclusion.....	28

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participation rate requirements, forcing many states to dismantle successful welfare-to-work programs now operating. By limiting types of activities that can “count” toward the increased work participation requirements, the House-passed bill effectively would mandate states to operate large “workfare” programs, despite substantial evidence that such programs are ineffective at helping recipients find jobs.

- *By expanding state flexibility to design welfare-to-work programs and increasing child care funding, the bill addresses many of the concerns raised by Governors and other state officials about the work-related provisions in the Administration’s reauthorization proposal and the House-passed TANF bill that would reduce the flexibility Congress granted to states in the 1996 welfare law.* Some 41 of 47 states responding to a survey by the National Governors Association and the American Public Human Services Association earlier this year stated that the President’s proposal would cause them to make fundamental changes to current welfare-to-work strategies and/or redirect resources away from current efforts, particularly work supports for non-welfare families, in order to fund new federal work-related mandates.
- *The Senate Finance bill gives states new options to provide health care and TANF benefits to legal immigrants.* The bill gives states flexibility to provide health care benefits to legal immigrant pregnant women and children, and TANF benefits to legal immigrants now barred from participating in TANF-funded programs because they have been in the United States for less than five years. Many states currently use their own state funds to provide these benefits. The National Governors Association and the National Conference of State Legislatures have called for this flexibility.

The House bill does not give states additional options for providing benefits to legal immigrants.

- *The Senate Finance bill also gives states new options to simplify child support procedures in ways that increase the amount of child support that reaches children.* The House bill includes more limited improvements in this area. Estimates from the Congressional Budget Office show that the Senate bill would result in a substantially larger increase in the amount of child support reaching low-income children than the House bill.
- *The Senate Finance bill would extend Transitional Medical Assistance (TMA) for five years while providing new state options to extend the length of time families can qualify and to modify a set of TMA rules that make the program difficult for states to administer and families to navigate.* The House bill extends TMA for only one year without providing any new options to improve the program.

While the approach taken by the Senate Finance Committee is a substantial improvement on the bill passed by the House earlier this year, it has several limitations that should be addressed when it is considered by the full Senate.

- *The Senate Finance bill freezes basic TANF funding at current levels.* The bill freezes basic TANF funding without adjusting its value for inflation, so that by 2007, its purchasing power would fall almost 12 percent below its level in 2002 and 22 percent below its value in 1997. This is particularly problematic in light of the latest TANF expenditure data from the Department of Treasury which shows that states spent some \$2 billion more than the annual TANF block grant in FY 2001 by drawing on unspent funds from prior years. Those funds have dwindled and most states can no longer rely on them to augment their annual TANF block grant allocation. The combination of the declining value of the TANF block grant, the lack of TANF reserve funds, and increased costs due to the increased work-related requirements, will mean that many states will have to make significant cuts in TANF-funded programs, including programs that help support low-income working families. The bill does include a small increase in TANF supplemental grants — supplemental grant funding would increase by \$122 million per year, or less than .7 percent of the overall TANF block grant — which less than half the states would receive under the bill.
- *The Senate Finance Committee bill includes only a modest increase in child care funding.* The bill provides \$5.5 billion in additional mandatory child care funding over the next five years as compared to current child care funding. While these additional resources likely will be adequate to meet the child care costs associated with the increased work requirements included in the Senate Finance bill and compensate for the effects of inflation, these funds will not be enough to make more than a small dent in the number of low-income children who need child care assistance and are eligible for subsidies, but do not receive them due to a lack of resources. In fact, because some states may be forced to withdraw substantial TANF funding from child care programs because of inadequate TANF funding, in some states these new resources will not be sufficient to forestall *cuts* in child care programs in some places.
- *The Senate Finance bill does not give states the option to use federal TANF funds to provide wage subsidies to working families without subjecting them to the same restrictions as non-working families receiving TANF assistance.* Recent research finds that wage subsidy programs — programs that couple work requirements with financial incentives that supplement the earnings of low-wage workers — have positive impacts on employment, family income, and child well-being, including school achievement and child behavior. The TANF time limit rules, however, make no distinction between TANF-funded wage subsidies provided to a low-income working family and a monthly welfare check provided to a family that is not employed. As a result, some states have opted to use state funds, instead of federal TANF funds, to provide wage subsidies. States should be given the flexibility to determine whether to count TANF-funded wage subsidies provided to low-income working families against the TANF time limit.
- *Recipients placed in “rehabilitative services” and certain other activities designed to help them overcome barriers to employment could count toward a*

state's work rate, but only for a limited six-month period. Under the bill, a recipient who participated in adult basic education, English language acquisition programs classes, substance abuse treatment, or “rehabilitative services” designed to address other barriers to employment such as disabilities could count toward the work participation requirements for up to six months. While this will be enough time for many recipients, some recipients with severe physical or mental health impairments, very low literacy skills, or substance abuse problems may need additional time in programs designed to help them overcome such employment barriers. States should be given flexibility to grant extensions to this six-month timeframe when recipients with employment barriers need additional time to address these barriers.

- *The Senate Finance bill includes only one modest provision to reduce the extent to which families that want to comply with program requirements but need additional help to do so are sanctioned rather than being provided with needed services.* The Senate Finance bill does include a modest provision that would require states to review a family’s Individual Responsibility Plan prior to imposing a sanction on the family. While helpful, without stronger language there is a risk that some states would conduct only pro forma reviews instead of ensuring that families’ circumstances are assessed adequately and needed services provided. In addition, the bill does not include basic requirements on states to inform families of why they are being sanctioned, to offer assistance in resolving problems that may be impeding compliance with program rules, or to attempt to contact and reengage those who have been sanctioned.
- *The Senate Finance bill adopts an approach to promoting “family formation” that is likely to exclude efforts to help low-income non-custodial parents meet their financial and parenting responsibilities.* The bill provides \$1 billion over five years for “Healthy Marriage Promotion” competitive grants. Unlike the House bill, which more narrowly would focus its family formation-related funding to specified marriage services, the Senate Finance bill would allow funds to be used for teen pregnancy and domestic violence reduction efforts, and to replicate a demonstration program — the Minnesota Family Investment Program — that increased marriage rates of low-income parents. Neither the Senate Finance bill nor the House bill, however, appropriate funds for programs to help low-income non-custodial parents meet their responsibilities.

Work Requirements

The Senate Finance bill includes several changes to the work provisions in the TANF law. Like the House Bill, the Senate bill includes a provision — known as “universal engagement” — that would require states to establish Individual Responsibility Plans for *all* parents and caretakers receiving TANF assistance. The Senate Finance bill, similar to the House bill, would increase the share of TANF families that states would have to engage in specified welfare-to-work activities. The Senate Finance bill, however, would provide states with additional flexibility in structuring their welfare-to-work programs. The House bill, by contrast, imposes substantial new limits on the types of welfare-to-work programs states could operate included in the House bill.²

States Would Be Required to Meet “Universal Engagement” Requirement Beginning in 2004

Under the current TANF law, states must conduct an initial assessment of the skills, prior work experience, and employability of each adult recipient, but are not required to establish Individual Responsibility Plans for recipients and do not have to require parents or caretakers to engage in work until they have received assistance for 24 months.³ (As discussed below, under current law, states do have to meet work participation rates, but these rates have been very low in most states because of the caseload reduction credit.) The Senate Finance bill would require states to meet a new “universal engagement” requirement beginning in fiscal year 2004.⁴ Under this requirement, states would have to establish Individual Responsibility Plans for all parents and caretakers receiving assistance within 60 days of enrolling in TANF. (States also would have to complete plans for current recipient families by the end of fiscal year 2004.) Each individual’s plan would have to include information about required work activities and work supports, and address issues related to child well-being. States would be required to review plans on a periodic basis, including before imposing a sanction on a family.

The Senate Finance bill recognizes that requiring all TANF recipients to have Individual Responsibility Plans will impose new burdens on states. States that have focused their welfare-to-work efforts on the most job-ready TANF recipients may find it especially challenging to develop plans for recipients with health impairments or other barriers to employment. Such recipients may require more intensive interventions and services to move from welfare to work than are currently available in most states. To help implement the universal engagement requirement, the Senate Finance bill provides \$120 million over four years to states. These funds could be used to train staff, develop indicators of child well-being, improve coordination and access to work support programs for low-income families, and establish policy advisory panels to review policies and procedures for helping persons with work barriers move toward self-

² For a detailed analysis of the House bill, see Sharon Parrott, Shawn Fremstad, and Zoë Neuberger, *Key Issues in the House TANF Reauthorization Bill*, Center on Budget and Policy Priorities, June 2002.

³ As a practical matter, most states require TANF recipients to participate in welfare-to-work activities immediately or soon after they begin receiving assistance.

⁴ The bill retains the assessment requirement with minor modifications — most notably, states would have to screen for barriers to employment as part of the assessment.

sufficiency. The House bill does not include similar funding to implement the universal engagement requirement.

States Would Be Required to Meet Higher Work Participation Rates

The Senate Finance bill increases the share of families that states would be required to place in welfare-to-work activities. States would have to place 70 percent of TANF families in specified work activities by fiscal year 2007, up from 50 percent in the current fiscal year. The Administration's TANF reauthorization proposal and the House bill also would raise the TANF work participation rate to 70 percent.

The current TANF law includes a "caseload reduction credit" that reduces a state's participation rate by 1 percentage point for each percentage point reduction in the state's TANF assistance caseload since 1995. Because welfare caseloads declined so dramatically in the 1990s, the caseload reduction credit has resulted in work participation rate standards that are less than 10 percent in 42 states. (States have achieved actual participation rates that exceed these minimum requirements.) The Senate Finance bill eliminates the caseload reduction credit, replacing it with a smaller "employment credit" designed to reward states when families leave welfare and are employed. As a result, to meet the heightened overall work rates, states will have to engage a larger share of families in work activities than would be required if the caseload reduction credit were retained in its current form.

The President's TANF proposal also eliminated the caseload reduction credit. In its place, the President's proposal would allow states to count families that leave welfare and are employed toward the work participation rate. The Senate Finance "employment credit" provision is similar to the President's proposal — both would reward states when recipients find jobs and leave welfare.

The Senate Finance bill would cap the employment credit. The amount of the cap would be reduced each year — in 2007 the credit would be capped at 20 percentage points — at the same time as the work participation rates increase. Thus, the percentage of recipients that states must engage in welfare-to-work activities would rise substantially each year.

The House bill does not replace the caseload reduction credit with a mechanism to reward states when recipients leave welfare for work and instead revises the current caseload reduction credit in a way that increases the incentives already in current law for states to reduce their caseloads. Under the House bill's caseload reduction credit, states would see their work participation rate reduced if their TANF caseload fell during the *previous three years* (rather than measuring caseload declines from 1995 as is done under current law), regardless of whether this decline was the result of more families finding jobs. A set of 17 states would receive a further reduction in their work participation rates based on having exceptionally large caseload declines between 1995 and 2001. This revision would mean that a state would only see a reduction in its work participation rate if its TANF caseload continued to fall each year.

In addition to replacing the caseload reduction credit with an employment credit, the Senate Finance bill makes a second change to the participation rate calculation; the bill would exclude families from the participation rate calculation if the state determines that the adult

recipient cannot meet the hourly requirements because she must care for a disabled family member. The bill caps the number of families that can be excluded on this basis to 10 percent of the caseload.

Most states now make special allowances in their work programs for families in which the adult must provide significant care to a disabled child or other family member, either by exempting such recipients from work requirements or allowing such caregiving to satisfy the state's work requirements. As the work participation rates that states must meet increases — as they would under the Senate Finance bill — states that now make such allowances would face increasing pressure to require recipients who need to care for disabled family members to participate in work activities that can “count” toward the work participation rates. By allowing a limited number of exemptions from the federal TANF work participation rate calculation for recipients with disabled children or other family members that require extensive care, the Senate Finance bill addresses this concern.

As is discussed further below, the Senate Finance bill also provides “partial credit” toward the work participation rates for recipients who participate at least half of the required hours. This provision compliments the provision allowing limited exemptions for recipients who are needed to care for disabled family members. Taken together, these provisions recognize that in some cases recipients will need to be excused from participating in work activities altogether while providing an incentive for states to engage recipients who can participate some, but not all, of the required hours.

Bill Retains Current Overall Hourly Requirements, but Increases Number of Hours Required in “Priority” Activities

Under current law, most adults must be engaged in work or welfare-to-work activities for 30 hours a week to be counted toward a state's work rate, and in certain “priority” activities — including paid or unpaid work, community service, vocational education training, and a limited amount of job search and job readiness activities — for at least 20 of those hours. (Parents with children under age 6 are counted if they participate in activities for 20 hours a week, as long as all 20 hours are in priority activities.) The Senate Finance Committee's bill maintains the current overall hourly standards — states would continue to have flexibility to impose more stringent hourly requirements — but would increase the number of hours that recipients must spend in priority activities to 24. This change may make it more difficult for TANF recipients to combine part-time work with other activities that do not count toward the 24-hour requirement.

The approach taken by the Senate Finance Committee, however, is an improvement on the House TANF bill. The House bill would require *all* recipients — including parents with children under age six — to participate in activities for 40 hours each week in order to count toward the work participation rates. There is no research evidence to suggest that the House bill's 40-hour requirement would result in improved employment outcomes for families. Moreover, the provision will impose substantial new costs and administrative burdens on states. States will need to provide additional child care, develop new welfare-to-work program activities to fill the additional hours, and increase staffing to monitor participation in additional activities. Absent any compelling evidence that imposing this new mandate will result in benefits that exceed its considerable costs, there is little reason to limit state flexibility to determine whether

additional hours of participation should be required, and, if a state determines that additional hours should be required, the precise number of additional hours that should be required.

The 40-hour requirement is especially problematic when it is combined with the other increased work requirements and reductions in state flexibility included in the House bill. According to the Manpower Demonstration Research Corporation — an organization that is well-regarded for its rigorous evaluations of more than two dozen welfare reform demonstration projects — in order to meet substantially higher work participation rates, “the weekly hours requirement would have to be relaxed, and the rules would need to take specific account of several practical realities involving the changing status of people, the slots and services required, and the administrative difficulty of monitoring participation.”⁵

The Senate Finance bill also provides “partial credit” toward the state’s work participation rate when recipients participate in work activities for some, but not all, of the required hours. Under the bill, states would receive partial credit for recipients who worked at least half of the required hours and the level of partial credit would be based on the number of hours the recipient participated. The partial credit provision recognizes that partial participation can be the first step for some adults in the transition from welfare to work and provides states with an important incentive to work with — rather than ignore — those recipients whose circumstances make it difficult or impossible to participate for all of the required hours. The House bill also provides for some partial credit, but in more limited circumstances. Under the House bill, a state only would receive partial credit toward the work participation rates for recipients who completed the *full 24 hours* of participation in the “primary” activities (paid and unpaid work) but who did not meet the 40-hour participation requirement. Thus, under the House bill, a state would get *no* credit if a parent worked 22, rather than 24, hours in an unsubsidized job.⁶

Senate Finance Bill Provides States with Additional Flexibility in Structuring Welfare-to-Work Programs

States and others have called for changes in the TANF law that would make it easier to implement welfare-to-work programs that improve employment outcomes for families with work barriers or low skill levels. In February, the National Governors’ Association passed a welfare reform policy (on a bipartisan basis) that called on Congress to allow states to count a broader range of activities toward the work participation requirements.⁷ The National Conference of

⁵ Testimony of Gordon L. Berlin, Senior Vice President, Manpower Demonstration Research Corporation, before the Senate Finance Committee, March 12, 2002.

⁶ The state would receive no partial credit in this case even if the parent participated for 18 hours in other allowable activities for a total of 40 hours of participation. Under the House bill, states only receive credit if a parent participates for 24 hours each week in paid or unpaid work, regardless of the reason the parent participated fewer hours. Thus, if a parent is scheduled to participate in 24 hours each week of paid or unpaid work and misses one day (8 hours) during the month because she is needed to care for a sick child or is herself ill, the state cannot count her at all toward the work participation rate. Under the Senate bill, by contrast, the state would receive nearly full credit (93 percent) for this recipient’s participation.

⁷ National Governors’ Association, HR-36, Welfare Reform Policy.

State Legislatures and the American Public Human Services Association have called for similar flexibility. The Senate Finance bill, while not providing flexibility as broad as states and others have called for, would provide some additional flexibility in two crucial areas: vocational education training and short-term “rehabilitative” services designed to address barriers to employment.⁸

- *Rehabilitative services, such as substance abuse treatment, mental health treatment, vocational rehabilitation services, adult basic education, and English language acquisition programs, would count as full-time activities for up to 3 months out of 24 months and for an additional 3 months when combined with more traditional work activities.* Many states have recognized that such activities can be critical first steps for helping recipients with serious barriers find jobs. The Senate Finance provision improves on a similar provision in the House bill which would allow states to count recipients participating in state-defined activities toward the work participation rates, but for only *three* months in any consecutive 24-month period. Six months, however, may not provide a sufficient amount of time to address effectively barriers to employment that are particularly severe and that require longer-term, more intensive interventions. For example, an evaluation of the CASAWORKS program, which provides treatment and services to welfare recipients with substance abuse problems, found that individuals who participated for longer periods of time were more likely to stop using drugs and alcohol and to maintain employment. Most participants remained in the program for six to nine months before moving into full-time employment, but the most significant impacts were seen for those who participated for 12 months.⁹

To ensure that states have the flexibility to place recipients in longer-term barrier removal activities when necessary, states should be given the option to extend the 6-month limit based on a case-by-case assessment. Given the strong fiscal incentives in the TANF structure to reduce cash assistance caseloads, it would only be in a state’s interest to extend the length of time a recipient participates in such barrier-removal activities if the state thinks those activities are necessary for helping the parent find and retain a job.

⁸ The Senate Finance Committee bill extends the amount of time a recipient can participate in job search programs (as a priority activity) and count toward the participation rates from four consecutive weeks to eight weeks. This policy change recognizes that many recipients — particularly in a weakened job market — need additional time to search for employment. The House bill would allow job search to count toward the first 24 hours of the 40-hour work requirement during the limited 3-month period in which a range of activities can count. Recipients who need to participate in other types of activities during that limited period — such as adult basic education, substance abuse, mental health counseling, vocational training, domestic violence-related services, for vocational rehabilitation — could not participate in job search as a priority activity and count toward the work participation rate.

⁹ *CASAWORKS for Families: A Promising Approach to Welfare Reform and Substance-Abusing Women*, National Center on Addiction and Substance Abuse at Columbia University, May 2001, <http://www.casacolumbia.org/publications1456/publications.htm>.

- *The Senate Finance bill would allow participation in vocational education training to count toward the participation rates for up to 24 months (it is currently countable for only 12 months) and would allow a limited number of recipients who participate in postsecondary education programs to count toward the participation rates. Under the Senate Finance bill, up to 30 percent of those who count toward the participation rates can participate in vocational education training for up to 24 months. The 30 percent limitation also is in current law, although the Senate Finance bill would not count teen parents in education programs, including high school, toward the cap. This change modestly expands the number of recipients who can participate in such programs and count toward the work participation requirements. In addition, a state can elect to establish a postsecondary education program in which up to 10 percent of the state's caseload can participate in postsecondary education programs and count toward the participation rates. (The state must follow certain guidelines to be permitted to count the participants toward the participation rate.)*

Broadening access to education and training within a structure that maintains an emphasis on employment is consistent with recent research on the importance of these activities in helping parents find jobs that pay more adequate wages. (See text box on page 10 for a discussion of this research.)

Research and State Experience Demonstrate The Effectiveness of Education and Training

Broadening access to education and training, including allowing a limited number of recipients to participate in postsecondary education, is consistent with research on welfare-to-work programs and state experience. Recent studies show that welfare-to-work programs that utilize a *mix* of activities — including job search and readiness programs, employment, and education and training — are the most successful at both increasing employment rates and helping recipients find jobs that pay more adequate wages. In the recent National Evaluation of Welfare-to-Work Strategies, a “mixed service” program operated in Portland, Oregon at the time of the evaluation far outperformed the other ten sites — and other welfare-to-work programs that have been studied — by producing large increases in employment, earnings, job quality (wages and benefits), and employment stability. While maintaining a strong employment focus, Portland substantially increased participation in education and training and placed a strong emphasis on helping recipients find jobs that paid higher wages and offered opportunities for advancement. Portland also increased receipt of education and training credentials, including helping more high school dropouts to earn both a GED and an occupational certificate.^a

In addition, a recent study of California TANF recipients who attended community college programs found that their earnings increased substantially after leaving the programs and that the earnings gains were greatest for those who completed vocational certificate programs or obtained associates degrees, which generally take significantly longer than 12 months to complete. The community college programs were successful at improving the employment outcomes for those who entered with a high school diploma and those who did not.^b

Finally, the state option to allow recipients to participate in postsecondary education program is modeled on a successful program in Maine known as “Parents as Scholars” which allows recipients to attend postsecondary education programs and provides key supports such as child care and transportation assistance while they attend school. A recent study of program participants found that those who graduated increased their hourly wage by nearly 50 percent after completing their degrees. Graduates also were far more likely than other former TANF recipients to find jobs that offer health insurance, paid sick leave, and paid vacation time — important employment benefits for parents who must balance work and family responsibilities.^c

^a Gayle Hamilton, et al., “How Effective Are Different Welfare-to-Work Approaches? Five-Year Adult and Child Impacts for Eleven Programs,” Executive Summary, *National Evaluation of Welfare-to-Work Strategies*, (New York: Manpower Demonstration Research Corporation, November 2001).

^b Anita Mathur, “Credentials Count: How California’s Community Colleges Help Parents Move from Welfare to Self-Sufficiency,” prepared by the California Community Colleges Chancellor’s Office for the Center for Law and Social Policy.

^c Rebekah Smith, Luisa Deprez, and Sandra Butler, “Parents as Scholars: Education Works,” Maine Equal Justice Partners, March 2002.

The Senate Finance Committee’s approach to vocational education training is notably different than that taken by the House. The House would *eliminate* the provision in current law that allows full-time vocational education to count for up to twelve months toward the work requirements. Full-time vocational education programs would be allowable only under the provision in the House bill that allows states to place recipients in state-defined work activities, including work-related training, for up to three months in any 24-month period. (Limited one-month extensions would be available for individuals within one month of completing a training program.)

Because participation in job search — a key component of most welfare-to-work programs — also would count the three month limit imposed on broader activities, access to education and training likely would be even shorter than three months. Once a recipient has exhausted the three month limitation, recipients could participate in education and training only if they combined these activities with 24 hours of weekly work in paid or unpaid employment. For many single parents, working in a subsidized or unsubsidized job or participating in a workfare program for 24 hours each week would leave too few remaining hours both to meet parenting responsibilities and to devote enough hours to education or training programs to improve their employment prospects. (A study of California TANF recipients who attend community colleges shows that education and vocational training programs that result in a certificate or degree are associated with the largest earnings gains.) Moreover, it is important to note that many states likely will assign recipients to more than 24 hours of paid or unpaid work so that the recipient can count toward the participation rates if she misses several hours for any reason, such as an illness, the need to care for a sick child, or a parent-teacher conference. If recipients are assigned to more than 24 hours of paid or unpaid work, participation in education or training programs will be even more difficult.

At least 40 states currently allow participation in vocational education training for more time than would be allowable under the House bill.¹⁰

Funding for Innovative Employment Programs

Two findings consistently emerge from studies of parents who remain on welfare or have left welfare for work.¹¹ First, while many parents have left welfare and are working, these working former recipients generally earn below-poverty wages and see only modest growth in their earnings over time. Second, many adult TANF recipients have circumstances or conditions often called “barriers to employment” that impede their ability to find and maintain employment.

¹⁰ “Forty States Likely to Cut Access to Postsecondary Education and Training Under House-passed Bill”, Center for Law and Social Policy, June 19, 2002.

¹¹ For more information on this research, see Heidi Goldberg, *Improving TANF Program Outcomes for Families With Barriers to Employment*, Center on Budget and Policy Priorities, January 2002, and Steve Savner, Julie Strawn, and Mark Greenberg, *TANF Reauthorization: Opportunities to Reduce Poverty by Improving Employment Outcomes*, Center on Law and Social Policy, January 2002.

Authority to Continue and Replicate Welfare Reform Waiver Policies

Prior to the passage of TANF, a number of states obtained waivers to operate welfare reform demonstration projects. The 1996 welfare law allowed states to continue policies adopted pursuant to a welfare reform waiver demonstration project through the scheduled expiration date of the project. While some of these waivers have already expired, a number of state waivers are due to expire this year or in the next few years. The Senate Finance bill would allow states with waivers that expire on or after October 1, 2002 to continue their waiver programs. In addition, states that do not have existing waivers would be allowed to replicate existing successful waiver policies for two years. HHS then would evaluate these new waiver projects and could extend them for an additional two years if they were found to be effective.

Concerns have been raised that allowing additional states the same options open to states currently operating under waiver rules instead of standard TANF rules could “weaken” the work requirements states would be required to meet. There is no evidence, however, that the states that have operated under waiver rules since 1996 have had less success in helping parents move to work. In fact, data on the rates of caseload decline and the employment rates and earnings of families who have left welfare show that states operating under waivers have had similar trends in such indicators as states operating under standard TANF rules. Moreover, the provision would not allow waivers of the Senate Finance bill’s new “universal engagement” requirement, which requires states to develop individual welfare-to-work plans for all adult TANF recipients.

The Senate Finance bill creates a new “Business Link Partnership” grant program that would help fund innovative programs to address these two issues. Under the program, HHS and the Department of Labor would jointly award \$1 billion over five years to nonprofit groups, local workforce investment boards, states, localities, and tribes. At least 80 percent of the funds each year would be equally divided between: 1) programs designed to partner with employers to increase the wages of low-income workers, and 2) “transitional jobs” programs that provide temporary wage-paying supported work to low-income individuals who are not able to obtain jobs because of barriers to employment. Both types of programs have shown considerable promise as strategies to improve employment and earnings outcomes for low-income families.¹²

This new grant program is funded by repealing the “high-performance” bonus fund established by the 1996 welfare law. The high-performance bonus currently provides \$200 million a year to states that improve their performance on a range of measures related to employment outcomes, access to work supports, and family formation. While it would be preferable to retain the bonus fund to reward states that improve their performance in these areas and find an alternative funding source for the Business Link program, the Business Link program would foster valuable innovation and increase knowledge about strategies to increase the employment and earnings of low-income families.

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¹² For information about transitional jobs programs, see Gretchen Kirby, et al., *Transitional Jobs: Stepping Stones to Unsubsidized Employment*, Mathematica Policy Research, Inc., April 2002.

In short, the Senate Finance Committee bill would increase the number of recipients states would be expected to engage in welfare-to-work activities, but would give states more flexibility than current law provides to tailor those activities to recipients' individual circumstances. This is in stark contrast to the approach taken in the House bill which would increase work requirements states must meet *and* substantially reduce the flexibility states currently have to engage recipients in a range of welfare-to-work activities.

Family Formation

The Senate Finance bill would eliminate existing disincentives to two-parent family formation in some state TANF programs by requiring states to treat two-parent families in an equitable manner when they set program eligibility criteria. The bill also provides *\$1 billion* over five years for “Healthy Marriage Promotion” competitive grants and authorizes (but does not fund) grants to support programs aimed at increasing the employment rates and child support payments of noncustodial parents.

Stricter TANF Eligibility Rules for Two-Parent Families Would be Prohibited

Under the AFDC program, two-parent families could receive benefits only if they met strict restrictions that did not apply to single-parent families. The 1996 welfare law eliminated the restrictions in federal law on serving two-parent families, but several states continue to impose additional restrictions as a matter of state law, even though they are inconsistent with the family formation purposes of TANF. The Senate Finance bill would prohibit states from imposing stricter eligibility rules on two-parent families than on single-parent families. In contrast, the House bill would *not* prohibit states from imposing stricter eligibility rules on two-parent families. While the House bill includes a provision that would require states to outline in their TANF state plans how they intend to “encourage” equitable treatment of two-parent families in their TANF programs, the House bill would not require states to actually treat two-parent families in an equitable manner.

Healthy Marriage Promotion Grants

The Senate Finance bill establishes a “Healthy Marriage Promotion” competitive matching grant program costing \$1 billion over five years. The Senate proposal is financed in part by the elimination of the “illegitimacy bonus” in current law which provides \$100 million a year to states that experience the largest reductions in non-marital pregnancies each year.

Grants could be awarded for a variety of marriage-related activities, including public advertising campaigns on the value of marriage, voluntary marriage education and marriage skills programs, and marriage mentoring programs. The grants would be awarded by HHS according to criteria that it develops after soliciting public comment. The Senate Finance provision is similar in several respects to the Healthy Marriage Promotion grants included in the Bush Administration's welfare proposal and the House bill. It improves on these proposals, however, in some important respects.

*The Senate Finance Bill's Match Requirement Is More Reasonable
Than the House Bill's Requirement*

The House bill would have required states to provide \$100 million a year to draw down the full \$100 million in Healthy Marriage *competitive* funds. (The House bill creates two different pots of marriage-related funding — a \$100 million per year competitive grants fund and \$100 million in research and demonstration funding. The competitive grants funding would require a dollar-for-dollar state match while the research and demonstration funding would not require a match.) The Senate Finance bill reduces the match requirement to \$50 million a year and would allow in-kind contributions to count toward the match. These changes will make it more likely that community-based non-profits and faith-based organizations will be able to access these funds.

The House bill also includes a troubling financing provision that would allow states to use federal TANF funds to meet the state match requirement. Given current state fiscal conditions, it is likely that states wishing to access these grants would use federal TANF funds to satisfy the match requirement rather than allocating additional state revenues for this purpose. The House bill's match provision thus would effectively earmark up to an additional \$500 million over five years in federal TANF funding for marriage-related programs. Since states already are spending *in excess* of their federal TANF block grant (by drawing on unspent balances from prior years which are now dwindling), most states would have to *cut* funding for programs currently funded with TANF funds — such as child care, transportation assistance, or welfare-to-work programs — in order to devote TANF funds to meet the match requirement for the marriage funds.

The Senate Finance bill does not allow federal TANF funds to be used to meet the match required. The Senate Finance approach is in accordance with federal guidelines for matching grants. These guidelines generally prohibit the use of federal funds to meet state match requirements to ensure that when federal law requires states to contribute resources to a project, those funds are generated from state revenues, thereby ensuring that the state has a fiscal stake in the project.

*Senate Finance Bill's "Healthy Marriage Grants"
Would Fund a Broader Range of Programs*

Like the House bill, funds in the Senate Finance bill could be used for specified marriage education and promotion activities, including pro-marriage public advertising campaigns, voluntary marriage education and skills programs, and marriage mentoring programs. Funds also could be used (at the discretion of the Secretary of HHS) for programs that address three underlying factors that research has shown to have a significant impact on marriage, especially in low-income communities: teen pregnancy, domestic violence, and economic instability.

- *Teen Pregnancy:* Teen pregnancy clearly has a negative impact on marriage and the extent to which marriages are healthy. Some 80 percent of teen pregnancies are non-marital pregnancies. Teen marriages (which are often precipitated by a pre-marital pregnancy) are more likely to end in divorce than other marriages, and

More Substantial Research Component Needed In Marriage Initiative

Because so little is known about the effectiveness of government-funded marriage programs, vigorous research efforts in this area are essential. The marriage-related research provisions in both the Senate Finance and House bills, however, do not adequately address the need for high-quality research. The House bill provides substantial funds for marriage programs and research, but provides little direction to HHS to ensure that this funding yields useful research information. By contrast, the Senate Finance bill directs the National Academy of Sciences to conduct a rigorous evaluation of funded programs, but fails to earmark a sufficient amount of funds for this evaluation.

women who have non-marital births in their teens and later marry are more likely to divorce than other women.¹³

- *Domestic Violence:* There is little question that domestic violence reduces the extent to which marriages can be considered “healthy.” Moreover, domestic violence is frequently cited as a factor that contributes to divorces and influences decisions about whether to marry. Recent research suggests that this is especially the case for women who have received public assistance. A study conducted for the Oklahoma Marriage Initiative found that divorced adults who had received government assistance at some point were significantly more likely to cite domestic violence as a factor that contributed to their divorces than other adults.¹⁴ Similarly, research shows that domestic violence has a negative impact on the attitudes that many low-income single mothers hold about marriage.¹⁵
- *Economic Instability:* Economic factors play a strong role in discouraging marriage and creating stress that can lead to marital breakup, especially in low-income communities. There is evidence that income support and employment programs may help low-income, two-parent families stay together by making them more economically secure. The Minnesota Family Investment Program demonstration — which the Senate Finance bill explicitly references as an example of the type of programs that funds could be used for — resulted in increased marriage rates, decreased divorce rates, and reduced domestic violence

¹³ See Naomi Seiler, *Is Teen Marriage a Solution?*, Center on Law and Social Policy, April 2002; Dan Lichter, *Marriage as Public Policy*, Progressive Policy Institute, September 2002.

¹⁴ In addition, a recent study conducted by the Institute for American Values found that domestic violence during marriage was much more common among unhappy couples who divorced than among unhappy couples that stayed together — 21 percent of unhappy spouses who divorced reported husband-to-wife violence, compared to nine percent of unhappy spouses who stayed married. Linda Waite, et al., *Does Divorce Make People Happy?*, Institute for American Values, July 2002.

¹⁵ Maureen Waller, “High Hopes: Unwed Parents’ Expectations About Marriage,” *Children and Youth Services Review*, 23 (6-7): 457-484 (2001). Waller found that low-income unmarried mothers who report the father of their child has hit and slapped them in an argument had significantly lower expectations about marriage than other mothers. Similar findings are reported by ethnographic researchers. See Kathryn Edin, “How Low-Income Single Mothers Talk About Marriage,” *Social Problems*. 47(1): 112-133 (2000).

among low-income parents.¹⁶ MFIP provided expanded work supports to low-income working families and eliminated restrictions on the eligibility of two-parent families for assistance. The Senate Finance bill would allow the Healthy Marriage grants to be used to replicate this demonstration which would allow researchers to test whether such policies implemented in different locations would result in similar positive outcomes.

In contrast, funds in the House bill's competitive grants program could *not* be spent for programs that address these three factors. The House bill would require that the research and demonstration funds be used "primarily" for a narrow set of marriage education and promotion related activities.

*Senate Finance Bill Would Ensure That Marriage-Related Programs are Voluntary
and Address Domestic Violence Concerns*

The Senate Finance bill addresses some of the widely held concerns about government involvement in an area that involves fundamental personal choices about marriage.

- *The bill ensures that the decision to participate in certain government-funded marriage programs is voluntary.* Under the Senate Finance bill, states would not be permitted to require a TANF recipient to participate in a marriage-related program funded with a Healthy Marriage Promotion Grant. Unfortunately, this protection only applies to programs receiving government funding under the new marriage promotion grant program, and does not apply to marriage programs established with general TANF block grant funds.
- *The Senate Finance bill also requires programs to consult with domestic violence experts.* This can help ensure that programs are equipped to address domestic violence issues that may arise and that abusive individuals do not take advantage of programs in ways that compromise the safety of their spouses or partners.
- *The Senate Finance bill provides for input from the public into the criteria for awarding marriage grants.* The bill does not, however, require the involvement of non-governmental experts in the awarding of grants.

The House bill does not include these modest safeguards that seek to ensure that marriage-related projects are voluntary and equipped to respond to domestic violence concerns and that the public has an opportunity to help shape the selection criteria for awarding marriage-related project grants.

¹⁶ Virginia Knox, Cynthia Miller, and Lisa A. Gennetian, *Reforming Welfare and Rewarding Work: A Summary of the Final Report on the Minnesota Family Investment Program*, Manpower Demonstration Research Corporation, September 2000.

Employment Programs for Non-Custodial Parents

The Senate bill includes language authorizing a separate grant program to support employment programs for low-income non-custodial parents and to conduct policy review and demonstration projects to coordinate services for these parents within the child support system. Funding for this program is authorized at \$25 million a year, but, unlike funding for the Healthy Marriage grants, is not actually appropriated in the bill.

Efforts to increase the employment, child support payments, and parenting involvement of noncustodial parents are critical to improving the well-being of children and should be funded — not merely authorized. Even if marriage promotion and teen-pregnancy prevention programs result in significant reductions in the number of children living in single-parent households, there will always be some proportion of children who do not live with both biological parents. While reforms to the child support system have resulted in significant increases in child support collections over the past several years, many low-income non-custodial parents lack the ability to pay child support on a regular basis and an even larger number of non-custodial parents are not actively involved in their children's lives.

Child Support Enforcement

There is strong evidence that non-custodial parents are more likely to pay child support if they know that the support goes to their children. Research has shown that when child support is passed through to families receiving welfare, the child support paid by non-custodial parents increases, welfare receipt declines, and children's financial well-being improves.¹⁷

The Senate bill includes provisions that would help states increase the amount of child support received by children.

- *The bill would give states a new option to direct delinquent child support payments collected by intercepting non-custodial parents' federal tax refund checks to these non-custodial parents' children without regard to whether the custodial parent received welfare benefits **in the past**.* Under current law, states and the federal government generally retain child support payments collected in this manner as reimbursement for any welfare benefits provided to the custodial parent.
- *The bill would help states implement or enhance policies that direct a portion of child support payments collected from non-custodial parents of children who are **currently** receiving TANF to these children.* Under current law, states and the federal government generally retain child support payments made by non-custodial parents of children receiving TANF. While states already have the flexibility to pass through child support to these children, if a state exercises this option, it must still send the federal government its portion of any child support

¹⁷ Vicki Turetsky, *Reauthorization Issues: Child Support Distribution*, Fact Sheet: "Early Findings from Wisconsin Experiment to Get More Child Support to Families," Center for Law and Social Policy, February 2002.

collected, making this an expensive option to take. The bill would help states pay for the costs of passing through up to \$400 per month in child support to families with one child and up to \$600 per month in child support to families with two or more children.

- *The bill would eliminate a requirement in current law — known as “pre-assistance assignment” — that TANF families give up their rights to unpaid child support owed to them **before** they began receiving assistance.*

The House bill includes some of these provisions, but in a much more modest form. For example, the House bill also would help states pay for the costs of passing through child support to children receiving TANF, but only up to the greater of \$100 per month or \$50 more than a state’s current “pass through.” In addition, the House bill retains the pre-assistance assignment requirement contained in current law. Finally, the House bill finances part of the cost of the new child support state options by imposing an annual user fee of \$25 on parents who receive child support services, but have *never* received TANF or AFDC benefits. These parents are already required to pay a \$25 application fee, and states have the option to charge other fees and costs. Many of the parents who would be required to pay the additional fee have incomes low enough to qualify for other forms of public assistance, such as Food Stamps, Medicaid, SSI, or subsidized housing.¹⁸

CBO estimates indicate that the Senate Finance bill would result in a substantially larger increase in the amount of child support reaching children than the House bill.

Legal Immigrant Eligibility Options

Under current law, most legal immigrant families that have been in the country for less than five years are ineligible for Medicaid, SCHIP, and federally funded TANF benefits and services. Until passage of the 1996 welfare law, these legal immigrants were generally eligible for public benefits on the same basis as citizens.

The immigrant restrictions enacted in 1996 have proven to be among the most controversial provisions of the welfare law. Congress has modified the restrictions that apply to SSI and Food Stamps on several occasions, including this year when they restored food stamp benefits for many legal immigrants in the farm bill. Congress, however, has left in place the limits on providing federally funded health care and TANF benefits. Some 23 states now use state funds to provide TANF benefits to legal immigrants and 19 states use their own funds to provide health care benefits to legal immigrant children and pregnant women.

The Senate Finance bill would give states options to provide TANF-funded benefits to recent legal immigrants and Medicaid and SCHIP benefits to legal immigrant children and pregnant women. Both the National Governors Association and the National Conference of State Legislatures have recommended that states be given options to serve recent legal

¹⁸ Testimony of Vicki Turetsky, Senior Staff Attorney, Center for Law and Social Policy, before the Senate Finance Committee, May 16, 2002.

immigrants in these programs. While the Administration's reauthorization proposal does not lift the bar on providing federally funded health care or TANF benefits and services to recent legal immigrants, a recent press report suggests that the Administration now may support — or at least not oppose — giving states the option to provide TANF benefits to legal immigrants. In an interview with the Associated Press, Tommy Thompson, Secretary of the Department of Health and Human Services, stated: "If states want to do it [provide welfare benefits to legal immigrants], they should have the opportunity. . . . We're not pushing it, but if it passes, it's going to be included." He also noted that he had no "philosophical objection" to lifting the ban on providing health care benefits to legal immigrants.¹⁹

Giving states increased options to use federal funds to provide federally funded health and TANF benefits to legal immigrants will increase the well-being of children in immigrant families. While immigrants have high employment rates, their jobs often pay low wages, provide few benefits, and can be unstable. The combination of low-wage work and limited economic resources makes it difficult for some immigrants to weather temporary periods of unemployment, the loss of a wage-earner, or other family crises. This is particularly true for immigrants who have had less time in the United States to establish themselves, learn English, and advance in the labor market. Thus, the bar on using federal TANF funds to assist newer immigrants has the perverse effect of limiting states' ability to provide safety net, work support, and health benefits (like prenatal care) to families during a period in which these benefits can be particularly important. Recent research suggests that the restrictions on legal immigrants' eligibility for federally funded benefits appear to have contributed to rising food insecurity and declines in health care coverage among legal immigrant families, despite their high levels of employment.²⁰ It is important to note that children in these families either are U.S. citizens already or are likely to become citizens in the future.

The restrictions also raise basic equity issues. As taxpayers, immigrants help to pay for the costs of education, roads, national defense, and providing benefits and services to low-income families. In spite of their contributions as workers and taxpayers, the restrictions exclude legal immigrants from programs that could help them advance in the labor market, that provide them a safety net when temporary hardship interrupts their employment, and that extend basic health care coverage to pregnant women (whose children will be U.S. citizens) and children.

¹⁹ "Health and human services chief says he supports benefits for legal immigrants," Associated Press, May 3, 2002.

²⁰ An analysis by Harvard University economist George Borjas found that food insecurity increased in recent years among those immigrants most likely to be adversely affected by the immigrant eligibility restrictions. George J. Borjas, *Food Insecurity and Public Assistance*, Joint Center on Poverty Research Working Paper, November 2001. On declines in health care coverage, an analysis by the Center on Budget and Policy Priorities of Current Population Survey data found that the number of low-income children in immigrant families with health insurance decreased by 11 percent between 1995 and 2000, even though the number of all children in the United States with health insurance increased during that same time period.

Transitional Medical Assistance

Transitional Medical Assistance (TMA) provides temporary Medicaid coverage to families moving from welfare to work. Under TMA, families whose earnings would otherwise make them ineligible for Medicaid — many of whom are also leaving welfare — can receive up to 12 months of Medicaid coverage. Because health care constitutes a key work support that, like child care, helps facilitate entry into the workforce, TMA is widely viewed as an essential part of welfare reform.

The Senate Finance bill extends TMA for an additional five years, through fiscal year 2007. By contrast, the House bill only extends TMA through fiscal year 2003. Given the broad bipartisan support for continuing TMA, the House provision limiting TMA reauthorization to one year appears to be a budget gimmick designed to avoid showing the costs of operating the program after 2003.

The Senate Finance bill also includes several important TMA changes that would allow states to simplify the program and reduce paperwork requirements that place administrative burdens on both states and families. The Senate Finance bill also provides states with new options to extend coverage to additional low-income working families:

- *States would have the option to enroll families that find jobs quickly in TMA.* Under current law, families are only eligible for TMA if they received Medicaid for three out of the prior six months. Some states have noted that this rule is inconsistent with welfare-to-work approaches that move recipients into the labor market as quickly as possible. In response to this concern, the Senate Finance bill would give states an option to provide TMA to families that find jobs before they have received Medicaid for three months.
- *States would have the option to provide TMA coverage to low-income families for up to 24 months, instead of the 12 months allowable under current law.* States that adopt this option would ensure that low-income families do not become uninsured after only one year, if parents' jobs do not offer health insurance. Providing such coverage to low-income working families can “make work pay” while also helping parents stay employed by providing them with the health care they need to stay healthy.

Although these changes are included in bipartisan bills introduced in both the House (H.R. 2775) and Senate (S. 1269), they are not included in the House bill.²¹

Supplemental Housing Benefits

The Senate Finance bill would give states a new option to provide housing subsidies to low-income *working* families without counting such benefits as “assistance.” This would mean that

²¹ For more information on TMA, see Leighton Ku and Edwin Park, *Improving Transitional Medicaid to Promote Work and Strengthen Health Insurance Coverage*, Center on Budget and Policy Priorities, April 29, 2002.

months in which a working family received supplemental housing benefits would not count against the family's TANF time limit and states would be relieved of certain data reporting requirements that are more typically associated with traditional cash assistance programs.

This new option recognizes that housing subsidies can serve as important work supports for low-income families. A growing body of research evidence indicates that housing subsidies can help welfare recipients find stable employment and stay off of welfare.²² It appears that families are better positioned to move from welfare to work if they are not burdened by the types of housing difficulties that housing subsidies can help address, such as homelessness and unaffordable housing costs. Housing subsidies also make it easier for low-income families to move to areas where jobs are more plentiful but housing costs are higher.

A number of states and counties currently use TANF funds to provide housing subsidies. Many of these jurisdictions, however, have found it difficult or impossible to set up the types of programs that research has shown to be most effective — namely, programs that provide ongoing rental assistance to working families because of federal rules that define TANF-funded housing subsidies that are provided for more than four months as “assistance,” *even if families are working and not receiving TANF cash benefits*. Under these rules, an ongoing, TANF-funded housing subsidy counts against the family's federal TANF time limit. In addition, agencies that provide TANF-funded housing subsidies must maintain detailed monthly records on individual families, even though other federally funded housing subsidy programs do not require such records.

Under the Senate Finance bill, housing benefits would continue to be considered “assistance” when they are provided to *families that are not working*. Thus, states could not use this provision to “get around” the time limit on cash assistance by converting a non-working family's cash benefit into a housing subsidy.

Should this provision become law, states likely would choose to target housing assistance on families who need it to remain employed, rather than providing assistance to large numbers of low-income families for long periods of time. Due to both resource constraints and policy considerations, states and localities that now operate TANF-funded housing programs strictly limit the number of participants and impose a time limit on participation that generally is shorter than the state's limit on receipt of cash assistance.

TANF Funding

Despite increasing the work participation rates states must meet, the Senate Finance bill would *freeze* basic TANF funding for five years at the FY 2002 level of \$16.5 billion. The bill does, however, include a small increase in TANF supplemental grants, which provide additional funding to less than half of the states according to criteria discussed below. Seven states that had not previously received TANF supplemental grants would now receive such grants and ten states would receive an increase in the TANF supplemental grant they received in FY 2002. The total

²² This research is summarized in Barbara Sard and Margy Waller, *Housing Strategies to Strengthen Welfare Policy and Support Working Families*, Center on Urban & Metropolitan Policy, The Brookings Institution and the Center on Budget and Policy Priorities, April 2002.

increase in TANF supplemental grants equals just \$122 million per year, or less than a .7 percent increase in overall TANF block grant funding.

Even without the increased work requirements, freezing TANF funding for five years would mean that most states would be unable to maintain their current welfare reform efforts. Data from the Treasury Department show that in FY 2001, states spent \$18.6 billion on TANF programs — *\$2 billion more* than the annual TANF block grant level. States have been able to do this because they tapped unspent funds from the early years of the TANF block grant. Those funds, however, are dwindling quickly. Many states have no remaining reserves of unspent funds from prior years or will be without any significant reserves at some point in the next couple of years. In fact, a number of states have begun to cut TANF-funded programs already either because they no longer have reserves to draw on or as a result of rising costs associated with the recession.

Adding to this problem, the \$16.5 billion funding level will purchase less in services and benefits with each passing year due to inflation. The block grant has remained frozen since 1997 and has lost 11.5 percent of its value since then. Five more years of funding at the current level means that it would fall 22 percent below its value in 1997.

Under the Finance bill, states would face a five-year freeze on TANF funding at the same time that they would be expected to increase their welfare-to-work efforts. While the Senate's increased work requirements would not be as costly as those included in the House-passed bill, they would still impose some additional costs on states. The combination of higher welfare-to-work costs, the depletion of TANF reserve funds, and frozen funding that will fall in value each year due to inflation will force states to make substantial cuts in benefits and services now supported with TANF funds, particularly supports for low-income working families. In FY 2001, cash assistance accounted for less than 40 percent of TANF-related spending while supports for low-income working families and welfare-to-work programs accounted for 30 percent of spending. Unless states decide to cut already low cash assistance benefit levels, cuts are likely to fall on programs for low-income working families, such as child care and transportation assistance and job training to help parents advance in the labor market.

TANF Supplemental Grants

The TANF supplemental grants expire at the end of this year. The Senate Finance bill extends these grants for another five years and modifies the formula that determines which states qualify for the grants and the grant levels. Under the bill, 24 states would qualify for supplemental funding as compared to 17 states that currently receive these grants. The total cost of the grants would rise from \$319 million per year to \$441 million per year.

Under the Senate Finance bill, states would qualify for supplemental grants if they received a supplemental grant under current law or have per capita income levels at least 10

percent below the national average. The supplemental grants generally provide additional TANF funding to states whose basic TANF block grant allocation measured on a per-poor-child basis is low when compared to other states. (There is substantial variation in state TANF block grant allocations relative to their needy populations. **In fiscal year 2001, eight states received less than \$600 in TANF block grant funding per-poor child while 12 states received more than \$1,600 per poor child. The national average was about \$1,200 per-poor child.**) The design of the supplemental grant formula included in the Senate bill does, however, leave out several states with below-average block grant allocations as measured on a per-poor-child basis, including Illinois, Indiana, Iowa, Kansas, Maryland, Missouri, Nebraska, Oregon, Virginia, and Wyoming.

TANF Contingency Fund

The Senate Finance bill extends the TANF contingency fund for an additional five years and includes modifications to the fund that would help ensure that states receive needed resources during economic downturns. The contingency fund included in the 1996 welfare law was intended to help states meet costs associated with increases in assistance caseloads during recessions. Unfortunately, the design of the original contingency fund was deeply flawed and of no use to states during the recent recession. Despite an increase in the national unemployment rate of more than 2 percentage points between October 2000 and April 2002 and TANF caseload increases in 34 states between March 2001 and March 2002, *no state received contingency funding during this recessionary period.*

The current contingency fund is flawed in several ways. First, it requires states to increase *state* spending on TANF-related programs by *one-third* before receiving even one dollar in contingency funding. Finding the resources to increase state spending by this amount is likely to prove a difficult proposition for states facing declining revenues and balanced budget requirements during recessions. And, even if a state could increase its spending by this amount, it would face a very unfavorable match rate if it accessed contingency funding. In addition, the contingency fund “triggers” — the set of economic conditions a state must satisfy to qualify for funding — are ineffective at identifying states experiencing economic downturns. Only five states currently meet the contingency fund triggers despite clear evidence of poor economic conditions and increased hardship in many states.

The redesigned contingency fund in the Finance Committee’s bill substantially improves the contingency fund. States facing economic downturns and rising numbers of poor families who need basic assistance as a result would receive additional funding to help meet these increased costs. The proposed changes would alter both the triggers and the formula for determining the level of contingency funding eligible states would receive.

- *To qualify for contingency funds, states would have to be facing an economic downturn as evidenced by increased unemployment or an increase in the number of families receiving food stamp or TANF benefits.* The Finance Committee’s bill modifies the unemployment-related triggers in the current law to ensure that states with significant increases in their unemployment rates qualify for contingency

funding.²³ In addition, a state could qualify for contingency funding based on increasing food stamp or TANF caseloads, *but only if the Administration determined that the increases were due to economic circumstances, rather than changes in policies or procedures in those programs.* The triggers based on rising numbers of needy families ensure that states in which a recession particularly affects low-wage workers can qualify for contingency funding even if the overall unemployment rate does not increase as quickly as does the number of families who need basic assistance.

- *A state would receive contingency funding only if more needy families were receiving TANF benefits and if it had low unspent TANF reserves.* Since the contingency fund is intended to help states provide assistance to additional families that find themselves without work during a recession, the bill would limit contingency funding to those states in which the TANF assistance caseload has increased. In addition, states that would otherwise be eligible for contingency grants but had unspent TANF reserves equal to more than 30 percent of a single-year block grant allocation would not receive contingency funding. This ensures that states draw first on unspent TANF funds before accessing additional federal contingency fund resources.
- *The federal government would share in the costs of providing assistance to additional families.* Under the bill, eligible states would qualify for contingency funding equal to 60 percent of the benefit costs associated with caseload increases above a certain level. (The bill would not provide any contingency funding until a state's TANF caseload increased by more than four percent.) States would have to find other resources to fund the remainder of the benefit costs as well as the administrative costs and costs associated with engaging recipients in work activities.

Some have raised concerns that the contingency fund “triggers” are too generous and have implied that a large number of states would remain eligible for contingency funding when economic conditions improved. This claim is inconsistent with the data. In the three months *prior* to November 2000 — the first month in which the national unemployment rate began to rise — only five states met the contingency fund triggers included in the Finance bill. By contrast, data from the spring of 2002 indicates that 45 states would meet a contingency fund trigger. This suggests that the triggers included in the Finance bill closely track economic

conditions in states. If the contingency fund were in place today, however, substantially fewer than 45 states would qualify for contingency grants. Twenty states meeting a trigger would not

²³ A state could qualify for the contingency fund based on either of two measures of unemployment: 1) a 1.5 percentage point or 50 percent increase in the state's *total unemployment rate*; or 2) a 1 percentage point increase in the state's *insured unemployment rate*.” The “total unemployment rate” is an estimate of the total number of individuals who are unemployed as compared to the total labor force and is estimated based on monthly survey. In contrast, the “insured unemployment rate” is an actual measure, not an estimate, of the number of individuals receiving unemployment insurance benefits as compared to the total number of individuals working in jobs covered by the unemployment insurance system. The insured unemployment rate often provides a better measure of changes in unemployment rates in the early stages of recessions than the total unemployment rate.

Supportive Services and the Definition of Assistance

Under the current TANF law, certain TANF requirements — including the 60-month time limit, the assignment of a recipient's child support to the state, and data collection requirements — apply only when TANF funds are used to provide “assistance” as that term is defined in federal TANF regulations. In addition, a family is only included in the TANF work participation rate calculations if it is receiving “assistance.” The federal TANF regulations define “assistance” as cash payments and other benefits designed to meet basic needs. Supportive services such as child care and transportation are excluded from the definition of assistance, but only if they are provided to families who are employed. As a result, receipt of child care or other supportive services by parents attending a job training program or looking for work triggers the TANF requirements detailed above, even if they are *not* receiving cash assistance. The difference in the treatment of child care and transportation benefits for working and non-working families has created administrative difficulties for many states. The President's TANF proposal would exclude child care and transportation services provided to unemployed families from the definition of assistance. Both the Senate Finance bill and the House bill include this provision.

Neither the House bill nor the Senate Finance bill would give states the flexibility to exclude TANF-funded wage subsidies from the definition of assistance. Recent research finds that wage subsidy programs — programs that couple work requirements with financial incentives that supplement the earnings of low-wage workers — have positive impacts on employment, family income, and child well-being, including school achievement and child behavior. Unfortunately, the current TANF rules treat wage subsidies provided to low-income working families as “assistance.” (Two related types of benefits, refundable state earned income tax credits and “work subsidies” provided to employers to cover the costs of employee wages, are excluded from the definition of assistance.) As a result, some states have opted to use state funds, instead of federal TANF funds, to provide wage subsidies; some states, however, do not have sufficient state funds to adopt such an approach.

qualify because their TANF caseloads had not increased by at least four percent. Additional states would not qualify because their unspent TANF balances are above the limit set in the bill.

Child Care Funding

The Senate Finance bill increases mandatory child care funding by \$5.5 billion over five years. This funding level is a significant improvement over the House bill's increase of only \$1 billion in mandatory funding over five years.²⁴ The funding level in the Senate Finance bill, however, is well below the amount needed to account for the effects of inflation, compensate for a likely reduction in TANF funds available for child care, meet the increased child care needs of TANF recipients that result from new work requirements, and reduce significantly the number of eligible low-income working families that do not get subsidies.

The Senate Finance bill would increase mandatory child care funding from its current \$2.72 billion level to \$3.72 billion in fiscal years 2003, 2004, and 2005. In fiscal years 2006 and 2007, funding would increase to \$3.97 billion. Most of these additional resources would not

²⁴ The House bill also increased the authorization level for discretionary child care funding. Simply increasing the authorization level, however, provides no assurance that any additional discretionary child care funding will be appropriated this year or in the future.

require a state match. Additional state matching funds would be required in fiscal years 2006 and 2007, but only to draw down the last \$250 million in new resources. The Senate Finance bill adopted this approach — providing new resources without requiring significant additional state matching funds — to address the concern that states would have difficulty putting up state matching funds as a result of the recession and declining state revenues. In the long run, however, the fact that the new funds are primarily unmatched means that the overall level of state and federal resources devoted to child care is likely to be lower than if drawing down the new federal child care funds required a state match.²⁵

While important, these additional resources are unlikely to lead to a significant increase in the number of children in low-income working families receiving child care assistance.

- *Nearly all of the additional child care funding provided would be needed to maintain current child care services and meet the increased work requirements in the bill.* The Congressional Budget Office estimates that an additional \$4.55 billion in child care funding is needed over the next five years in order for the mandatory federal child care funding stream, state funds used to match these federal funds, and the TANF funds now devoted to child care to keep pace with inflation. In addition, CBO projects that the increased work requirements in the Senate Finance bill will increase state child care costs by an additional \$130 million over the next five years. (CBO also estimates that work program costs will rise by \$160 million over the same period.) Thus, the bulk of the additional child care funding provided by the Senate Finance bill will go toward maintaining current child care programs and meeting increased costs associated with increased work requirements, not increasing the number of children receiving child care subsidies or the investment in child care quality improvements.
- *Many states are likely to **reduce** the amount of TANF funding devoted to child care as TANF reserves from prior years are depleted and inflation erodes the value of the TANF block grant.* In FY 2001, states devoted \$3.4 billion in federal TANF funds to child care programs. A number of states already are cutting child care and other TANF-funded work support programs in order to respond to dwindling reserves and meet increased costs resulting from the recession.²⁶ If states reduce the level of TANF funding committed to child care, an even larger portion of the additional child care funds provided in the Senate bill will be needed just to maintain the current number of children receiving child care subsidies. In fact, in states that withdraw substantial TANF resources from child care programs, the additional child care funding in the Senate Finance bill may be too little to forestall cuts to child care programs.

²⁵ The Senate Finance bill includes an important provision that would prohibit states from using the new federal funds to simply replace existing state child care funds. This “non-supplantation” protection ensures that the new child care resources are used to increase the total amount of state and federal funds devoted to child care.

²⁶ Zoë Neuberger, *States are Already Cutting Child Care and TANF-related Programs*, Center on Budget and Policy Priorities, May 2002.

These factors mean that little of the increase in child care funds will be available to meet the needs of the many low-income working families that are eligible for subsidies but do not currently receive them. More than one-third of all states currently maintain waiting lists for child care subsidies and recent HHS data show that in fiscal year 2000, only one in seven children who meet federal eligibility criteria received federally funded child care assistance.^{27,28}

Conclusion

The Senate Finance Committee's TANF reauthorization bill is a substantial improvement on the bill passed by the House earlier this year. The bill addresses many of the concerns raised by Governors and other state officials about provisions in the Administration's proposal and the House-passed TANF bill that would reduce the flexibility Congress granted to states in the 1996 welfare law. While the Finance Committee bill would require states to substantially increase the number of families engaged in welfare-to-work programs, the increased work requirements in the Senate bill are coupled with expanded flexibility to provide welfare-to-work services that help recipients find better-paying jobs and address barriers to employment. By contrast, the House bill would limit state flexibility and require many states to revamp their welfare-to-work programs in favor of a rigid, federally mandated structure that is not based on research or state experience.

While it improves on the House bill, the Senate Finance bill has several limitations that should be addressed when it is considered by the full Senate. The Senate Finance bill includes a larger increase in mandatory child care funding than the House bill — \$5.5 billion over five years compared to the House bill's \$1 billion over five years — but the increased funds fall short of the amount needed to reduce significantly the number of low-income children who need and are eligible for child care assistance, but do not receive help due to limited resources. The Senate Finance bill provides \$1 billion over five years for "Healthy Marriage Promotion" grants, but does not appropriate *any* funds to help non-custodial parents meet their financial and parental responsibilities to their children. The Senate Finance bill's six-month limitation on the extent to which "rehabilitative" activities, such as mental health counseling, can count toward the work participation rates is another limitation that could be addressed on the Senate floor. Finally, the Senate should allow states to provide wage subsidies to low-income working families without subjecting them to the same restrictions that apply to non-working families receiving TANF assistance.

²⁷ See "State Developments in Child Care, Early Education, and School-Age Care 2001," Children's Defense Fund. It is important to note that waiting lists are not a definitive measure of unmet need because they do not reflect states that elect not to maintain a waiting list or families that do not seek subsidies because they have heard about long waits.

²⁸ For a more detailed analysis of unmet child care need, see Jennifer Mezey, Mark Greenberg, and Rachel Schumacher, *The Vast Majority of Federally-Eligible Children Did Not Receive Child Care Assistance in FY 2000*, Center for Law and Social Policy, June 4, 2002.