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EXTENDING TANF EMERGENCY FUND WOULD HELP SMALL BUSINESSES RECOVER FROM RECESSION

By LaDonna Pavetti and Liz Schott

A provision now added to the small business jobs bill the House is expected to vote on later this week would extend the TANF Emergency Fund, which is set to expire September 30. This provision would help create and preserve jobs, support small businesses, and strengthen overall demand.¹

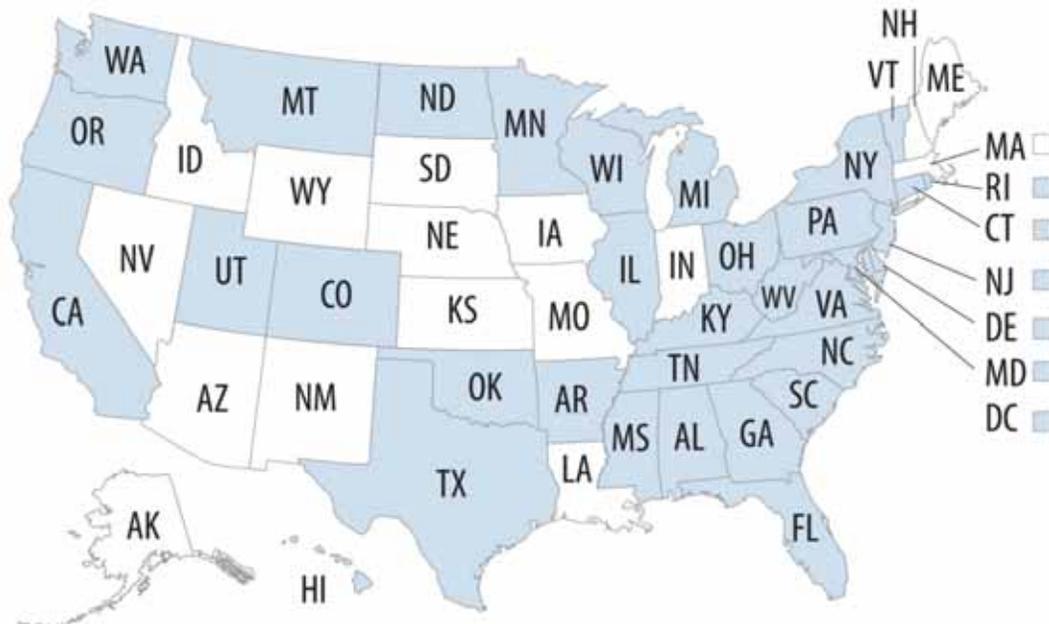
The Emergency Fund, included in last year's Recovery Act, has enabled states to create subsidized jobs for large numbers of low-income individuals who otherwise would be unemployed; more than 30 states are using the fund to create and preserve about *160,000 jobs* (see map, next page). The fund has also helped small businesses by defraying one of their key costs — employee wages — thereby enabling many firms to add staff they otherwise could not afford. In addition, the fund has strengthened overall consumer demand by enabling states to respond to the growing need among very poor parents and children for basic cash assistance and short-term, non-recurring needs.²

The fund is set to expire, however, on September 30, at a time when unemployment will still be very high and increasing numbers of individuals will have exhausted their unemployment benefits. States are already planning to start dismantling their subsidized jobs programs in anticipation of this withdrawal of federal financial help. If Congress fails to extend the fund, many of the 160,000 jobs it has helped create will be lost, and the additional subsidized jobs that small firms would create if additional funding were available will fail to materialize.

¹ The House legislation is H.R. 4849 – The “Small Business and Infrastructure Jobs Tax Act of 2010.” For additional detail and the impacts of the Emergency Fund, see Liz Schott and LaDonna Pavetti, “Extension of the TANF Emergency Fund Will Create and Preserve Jobs Quickly and Efficiently,” Center on Budget and Policy Priorities, updated February 17, 2010, <http://www.cbpp.org/files/1-27-10tanf.pdf> and LaDonna Pavetti, “Extending the TANF Emergency Fund Meets CBO Criteria for Effective Policies to Increase Employment,” Center on Budget and Policy Priorities, February 22, 2010, <http://www.cbpp.org/files/2-22-10tanf.pdf>.

² The Emergency Fund reimburses states for 80 percent of increased TANF-related spending in three areas — subsidized employment, basic assistance, and short-term, non-recurring benefits. For more background, see Liz Schott, “Opportunities under the TANF Emergency Fund Created by the Federal Recovery Act,” Center on Budget and Policy Priorities, July 29, 2009, <http://www.cbpp.org/files/7-29-09tanf.pdf> and Sharon Parrott and Liz Schott, “Overview of TANF Provisions in the Economic Recovery Act,” Center on Budget and Policy Priorities, February 25, 2009, <http://www.cbpp.org/files/2-26-09tanf.pdf>.

States With Subsidized Jobs Programs Funded by TANF Emergency Fund



Source: CBPP analysis.

The fund's expiration would also pose problems for small businesses. If firms participating in the program have not recovered enough to afford the wage costs, they will have to reduce staffing, and the individuals they hired with the help of the subsidy will again be unemployed. This would be a setback both for the economic recovery and for small firms participating in the program.

How the Subsidized Jobs Programs Work

Under the TANF Emergency Fund, each state — and in some states, each county or region — can design its own model of how subsidized job placements work, and states are using a range of models. This has enabled states and local areas to design their subsidized job programs in ways that best fit the needs of local businesses and communities.

Many states subsidize all, or nearly all, of the cost of the wages, while other states use a more modest, partial subsidy or one that declines over a period of months. Most commonly, states subsidize job placements that last six months; a few are shorter, and some are longer. States also have flexibility to determine who can qualify for a subsidized job. States need not limit participation to families receiving cash assistance, and a number of states are targeting a broader group of low-income unemployed parents, including those who are receiving — or exhausting — unemployment benefits. In all cases, the individual employer decides whom to hire, ensuring that firms are able to hire people who are a good fit for them.

How the TANF Emergency Fund Helps Small Businesses

Subsidizing all or much of an employee's wage costs for a period of time is of particular help to small businesses that are not certain when they will be able to fully support the costs of hiring new

workers. Although some TANF subsidized jobs programs require employers to hire the individual at the end of the subsidy period, others do not or simply encourage employers to do so. Either arrangement may actually be more beneficial to some small employers than the measures included in the jobs bill President Obama signed on March 18, which provides a temporary Social Security payroll tax suspension (equal to 6.2 percent of wages) through the end of the year and a \$1,000 tax credit if the firm retains the new employee for a year.

The President observed when signing the legislation, “There is a lot more we need to do to spur hiring in the private sector and bring about a full economic recovery.” Extending the TANF Emergency Fund is one such step that can be especially beneficial to small businesses. The fund has helped small firms in three ways:

- **Promoting business expansion.** The recession has required many small firms to put expansion plans on hold. By reducing a portion of the costs (and therefore the risk) associated with expanding, the fund has allowed some small businesses to proceed with planned expansions. For example, Tennessee’s subsidized employment program enabled a pastry business to increase production, which in turn allowed the firm to expand its distribution area and purchase a packaging machine to increase its efficiency. This expansion proved successful; the firm found new customers — and the firm now plans to hire all of the workers it hired through the TANF subsidized jobs program as regular employees.
- **Rehiring laid-off employees.** Small businesses hit hard by the recession often lack sufficient reserves to keep valued employees during periods of weak demand for their products or services. The TANF Emergency Fund has allowed some small businesses to rehire laid-off employees sooner than they had planned. For example, a small rental company in rural Ohio was able to hire back an employee who had been laid off for an extended period and would otherwise have remained laid off. This employer is planning to keep the employee on staff after the three-month subsidy ends, in anticipation of a seasonal increase in business after the winter.
- **Supporting new business start-ups.** Starting a new business can be difficult during a period of weak demand because the risk of failure is much greater. This is unfortunate because new businesses are essential to the long-term economic viability of communities that have faced significant job losses before and during the recession. Some of these communities have been able to use the TANF Emergency Fund to attract new firms and to help businesses that are just starting to increase their chances of success. For example, a small city in Ohio worked with local business organizations to put together a package of incentives to encourage a new employer to move to the city. One of the incentives was TANF wage subsidies for new hires.

Examples of the TANF Emergency Fund at Work

The TANF Emergency Fund has enabled small businesses to hire workers for administrative positions, construction, assembly or production, landscaping, food service, health care services, and customer services, among other areas. To cite just a few examples:

- A screen printer in upstate **New York** with 49 employees has two employees on staff whose wages are subsidized by the county with resources from the Emergency Fund. The company will receive a wage subsidy from the Emergency Fund through the end of August for one

employee and through early September for the other. Both individuals will then be retained as permanent employees. One of these employees was able to leave TANF cash assistance altogether shortly after she was hired; the other receives a partial TANF grant to supplement her earnings.

- A bakery in upstate **New York** with 40 employees has two subsidized employees on staff. Both were able to leave the TANF rolls within a month of starting work; they will remain as permanent employees when their subsidies end in August.
- An ice cream parlor in **Mississippi** that opened in the fall of 2009 had been in jeopardy of closing, but with the salaries of two of its four employees paid by the TANF Emergency Fund, it was able to survive and is now looking to expand. The firm will receive a gradually declining wage subsidy for six months. It will then retain the employees at its own expense, as the Mississippi program requires.
- A land surveying company with fewer than five employees in rural **Ohio** was able to rehire two employees who had been laid off and were receiving unemployment benefits. The company received a subsidy to cover two months of the employees' wages during a period when business is typically slow. The company expects business to pick up when the weather is better and is planning to keep both employees on the payroll when the subsidy ends.
- A family-owned lock manufacturer with about 30 employees in southern **California** hired a subsidized employee to assemble military-grade padlocks. The individual was hired for a six-month period; if business picks up by the end of the six months, the employer may retain the employee, first as a trainee and then as a regular employee.
- A soup company in northern **California** hired ten employees, including a restaurant and catering manager, through the city's subsidized employment program. The firm's owner noted that the program gave him the confidence and flexibility to hire sooner than he had anticipated, allowing him to expand his business. He plans to keep all ten employees when the subsidy ends in September.