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April 30, 2015 Hearing on Ideas to Improve Welfare Programs to Help More Families Find Work and Escape Poverty

Subcommittee on Human Resources, Committee on Ways and Means
U.S. House of Representatives

Thank you for the opportunity to share the Center for Law and Social Policy's (CLASP's) views regarding changes that should be made to improve the Temporary Assistance for Needy Families (TANF) program. CLASP advocates for public policies that reduce poverty, improve the lives of poor people, and create ladders to economic security for all, regardless of race, gender or geography. We have extensive experience working on income and work support programs at both the federal and state levels.

The focus of the discussion at the recent hearing was on TANF's effectiveness in creating pathways to economic security through work. However, it is important to remember that TANF has a dual mission:

- To alleviate poverty and prevent material hardship among children and families, especially those who are particularly vulnerable due to circumstances such as disability, domestic violence, or homelessness; and
- To create effective pathways to economic security, including access to quality education and training programs and individualized services for those with barriers to employment.

The aspiration of welfare reform was that states would use the flexible funding included under the TANF block grant to provide poor families with children individualized supports and services to enable them to both meet immediate basic needs and access and retain jobs that would lead to economic security. TANF has not lived up to this promise.

In this testimony, I begin by laying out the evidence that TANF has not been successful in meeting either of its goals. I then turn to a discussion of two primary reasons why TANF has not been effective -- the block grant funding structure of TANF, which means that less and less money in real terms has been available for income support and work programs, and the work participation rate, which does not provide states an incentive to operate effective programs, particularly for the most disadvantaged workers with children. In each of these areas, I lay out possibilities both for overhauling the current structure entirely, and for more modest changes that would still move TANF in the right direction. Finally, I turn to a brief discussion of why TANF is not a model for other safety net programs.

<u>TANF is not an effective safety net</u>

The number of families receiving assistance had started to decline even before national welfare reform in 1996, and this decline accelerated in the wake of welfare reform. The number of families receiving assistance fell from 4.4 million in an average month of 1996 to 2.2 million in 2001 and then continued to decline, although more slowly, through the 2001 recession and the "jobless recovery" that followed to 1.7 million families in 2008. While cash assistance caseloads rose in most states during the recent Great Recession, TANF was not nearly as responsive to the steep rise in unemployment as other safety net programs, notably the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps). Nationally, TANF caseloads are declining again, reaching a new low of 1.67 million families in the first three quarters of FY 2014.[1]

Moreover, many of the families receiving TANF assistance are so-called "child-only" cases, meaning that no adult receives benefits. In the average month of FY 2014, 43 percent of families receiving assistance were "no-parent cases."[2] In 17 states, these cases accounted for more than half of families receiving cash assistance.[3] This means that there are less than a million TANF cases including adults nationwide. Putting TANF caseloads and poverty figures together, the Center on Budget and Policy Priorities has calculated that in 2013, for every 100 poor families with children in the U.S. only 26 received TANF assistance, down from 68 when TANF was created.[4]

This decline in the share of poor families receiving cash assistance is driven by multiple factors: low eligibility standards that deny families seeking assistance help if they earn as little as $10,000 a year in the median state;[5] up-front job search requirements that create obstacles to families seeking assistance; full-family sanctions for those who are unable to comply with participation requirements; and time limits on benefit receipt even for those who do everything that is asked of them. In 9 states, less than 10 families receive TANF for every 100 poor families with children.[6]

Moreover, the families that do receive assistance remain deeply poor due to inadequate benefit levels. In 2014, for a family of three with no other income, every state's TANF benefits were an amount that totaled less than 50 percent of the poverty line. In 34 states, such a family would qualify for benefits worth less than 30 percent of the poverty line. When compared to 1996 levels and adjusted for inflation, the real value of TANF benefits has declined by over 20 percent in 37 states. Even when combined with SNAP benefits, TANF still leaves families below 60 percent of the poverty line in at least 36 states.[7]

TANF is not an effective work program

TANF has also largely failed to live up to the goal of engaging recipients of assistance in effective work programs that lead to economic security. TANF's reputation as successful in promoting employment derives from the dramatic increase in employment rates for single mothers during the 1990s, climbing from 57.3 percent in 1993 to 72.8 percent in 2000. However, credit for this increase must be shared between the overall booming economy and major expansions of work supports such as the Earned Income Tax Credit (EITC), child care subsidies, public health insurance, and improved child support enforcement and distribution, as well as welfare reform.[8] One study found that single mothers who were exempted from work requirements due to having young children were just as likely to work as comparable mothers in other states who were required to work as a condition of TANF.[9] Moreover, after the economy faltered in 2000, this progress stalled and has since lost ground, with single mothers' employment rate falling to 67.5 percent in 2014.[10] Since 2000, employment rates for less-educated women with and without children have been nearly identical,[11] suggesting that broader economic forces are having far more impact than TANF policy.

Most states offer very little in the way of employment services to TANF recipients. As noted by Dr. Pavetti in her testimony, states spent 8 percent of their TANF and related state funds in 2013 on work activities, with 14 states spending less than 5 percent.[12] Moreover, even this is an overestimate of spending on families receiving cash assistance, as the funds that some states use to support scholarship or workforce services for a broader population of low-income families are also reported under this category. While a few states have invested both money and effort into engaging clients in more intensive activities, such as Kentucky Ready to Work, Oklahoma's Special Projects, Maine's Parents as Scholars, and Washington State Community Service Jobs, these are exceptions to a general pattern of low investment in work activities.[13]

As discussed both at the hearing and below, the work participation rate (WPR) is a flawed measure of state performance. However, it provides some perspective on the types of activities that recipients are engaged in. Since 2007, the WPR has hovered just below 30 percent. In 2011, the most recent year for which data are available, over half of those counted participated in unsubsidized employment, most often jobs that people found on their own. Of those counted toward the rate, 24 percent were counted based on participating in job search. Job search is a reasonable first activity for many TANF recipients, most of whom desperately want to work. However, far too many TANF programs do not have anything else in the way of a work activity to offer, so recipients who don't find jobs just get sent through job search programs over and over again, to little effect.[14] In 2011, less than a fourth of individuals who are counted toward the rate were engaged in education and training activities, and only 2.2 percent were engaged in subsidized jobs.

The funding structure of TANF has undermined its effectiveness

One of the primary reasons that states have not developed stronger work programs under TANF is simply funding. Since TANF was created, the real value of the basic TANF block grant has declined 32 percent due to inflation. The grant has also not been adjusted for population growth. Moreover, since FY 2012, Congress has not funded the supplemental grants previously received by 17 states that received lower initial allotments.

The flexibility of the TANF block grant and related state funds also means that cash assistance and work programs must compete for funding with many other activities. During the boom years immediately after TANF was created, when jobs were easier to find, states used the flexibility of TANF to focus on other goals of the program -- such as keeping children with their families and helping parents maintain jobs by ensuring their children had nurturing child care while they were working. As a result, states spent significant portions of the block grant funding to support other critical needs for low-income families, including child care subsidies and child welfare activities. In some cases, states used these funds to substitute for state investments in these areas. When unemployment surged and the need for cash assistance and work programs increased, many states found it politically difficult to shift funds away from these other areas, particularly since state revenues were also affected by the recession. In addition to cash assistance, work programs and flexible funding to address individual barriers to employment were cut in multiple states.

It is worth highlighting that the recession also provides evidence of the power of additional funding to drive state choices. During FYs 2009 and 2010, a temporary TANF Emergency Fund was available to states that increased spending on cash assistance, subsidized employment, or short-term payments or services. Few states made changes to their basic cash assistance programs in order to draw down these funds; however, it appears that the availability of these funds protected most TANF programs from cuts. Some 39 states, the District of Columbia, Puerto Rico, the Virgin Islands, and eight Tribal TANF programs received approval to use $1.3 billion from the fund to create new subsidized employment programs or expand existing ones. These programs placed about 260,000 low-income individuals in subsidized jobs, split roughly evenly between year-round programs that served mostly adults, along with summer and year-round programs that served youth (up to age 24). Most programs did not start until late in 2009 or early 2010, so these results were achieved in less than two years. These programs received bi-partisan support at the state and local level and helped both disadvantaged workers and employers who were struggling in the recession. This experience proved that there was sufficient interest to operate such programs at scale. In addition to the immediate benefit of wages, participants got real work experience, along with connections to employers and other workers.[15]

A comprehensive, permanent solution to resolve the painful tradeoffs that inadequate funding has forced would include expanded and dedicated funding outside of TANF for child care and child welfare services (including prevention as well as foster care). For example, even with transfers from TANF included, child care assistance programs reached just 17 percent of eligible children in 2011,[16] and the number of children served has declined since then.[17] Similarly, federal IV-E funds cover a declining share of state child welfare costs, and funding for preventative services under IV-B has also declined.[18]

In the absence of such overall reform, it would still be beneficial to reform and expand the contingency fund along the lines of the Emergency Fund. In particular, the Emergency Fund approach of limiting the use of funds to a few specified activities effectively increased spending in those areas, rather than displacing state spending. At the same time, the Emergency Fund was accessible to a broader range of states than those able to meet the higher state spending requirements needed to access the regular contingency fund. A reformed program might include a sliding-scale schedule of matching rates so that the states with the highest unemployment rates are required to provide the lowest share of program costs. Given the high levels of interest in subsidized employment--and the difficulties of maintaining employer relations with inconsistent funding--it is also worth considering permanent, dedicated funding for subsidized employment, either within TANF or the workforce system.

A significant portion of TANF recipients – especially those receiving TANF for more than two years – have various barriers to employment, such as physical or mental health limitations, a child with a health problem, or an experience with domestic violence.[19] Others with similar limitations are among the "disconnected," neither working nor receiving cash assistance.[20] The cost of providing high-quality assessments, case management, and appropriate activities has often discouraged states from providing appropriate services to these low-income families, as it is far cheaper to exempt them from participation requirements -- or simply to allow them to be sanctioned off the rolls --than to provide intensive services. At the same time, such families are often not disabled enough to qualify for vocational rehabilitation services given the requirement to prioritize the most severely disabled applicants.[21] Therefore, specialized work programs for families facing multiple barriers to employment could be another area for targeted funding.

<u>The work participation rate is a flawed measure of state performance</u>

At the hearing, witness after witness (who had been invited by both Republicans and Democrats) agreed that the WPR, the primary measure by which states are held accountable under TANF, is a flawed measure of state performance. Ms. Anderson, the Secretary of Wisconsin's Department of Children and Families, noted in her written testimony that the "participation requirements, as currently structured, must be revised to ensure that the standards align with the ultimate goal of the TANF program: moving recipients from welfare to work."[22]

As the witnesses noted, the WPR is a process measure, showing whether recipients were present at countable activities for the required number of hours. It does not measure whether these activities increased the participants' employability or earnings. In order to receive credit towards the WPR, states must monitor and document all hours of participation. As a result, caseworkers must devote significant effort to verifying participation hours rather than on assisting families. There is no "partial credit" — for instance, states receive no credit for someone who participates fully in WPR-allowed activities for three weeks in a month, but misses most of a fourth week due to a sick child or other crisis. Monitoring and tracking participation consumes a great deal of state resources; one study of employment counselors in Minnesota found that they spent 53 percent of their TANF time on documentation activities such as verifying, collecting, and reporting information for WPRs, and 47 percent on direct service activities such as creating employment plans, identifying barriers to work, and assisting with job search.[23]

The WPR is a poor measure of state's effectiveness in operating work programs for TANF recipients. It does not distinguish between states that have low participation rates because they are doing a poor job of engaging recipients in any activity and states that have carefully assessed recipients and assigned some to reduced hours of participation or to activities that are not federally countable, such as full-time basic education. Moreover, it is easier and cheaper for a state to improve its WPR by serving fewer families who need assistance, than to raise the WPR by running a more effective program. In the wake of the tightened rules that HHS promulgated to implement the last reauthorization of TANF, the majority of states have adopted full-family sanctions, which have the effect of removing non-participating recipients from the caseload, and thus from the WPR. States particularly have little incentive to serve people with significant barriers to employment who are likely to require more time and extensive services before they are able to participate at the levels needed to be counted toward the WPR. States with high WPRs may have achieved them by working hard to engage all recipients, or by placing hurdles to keep individuals with significant challenges out of the program.

A particular problem of the WPR is that it discourages states from engaging recipients in education and training activities. Specifically, except during the one year for which vocational education can be counted as a core activity, education and training is generally only countable when combined with at least 20 hours per week of another core activity. Given the unpredictably shifting hours of many low-wage jobs, it can be difficult for recipients to combine education and training with employment, and many are simply denied the opportunity to meet any of their participation requirements through education. In the face of an economy that increasingly requires a post-secondary credential for all but the lowest-paying jobs, this policy makes it harder for welfare recipients to escape poverty.

Research and evaluations of job training programs for adults find that "a postsecondary education, particularly a degree or industry-recognized credential related to jobs in demand, is the most important determinant of differences in workers' lifetime earnings and incomes."[24] Moreover, at times of slack labor demand, workers without a postsecondary credential may be simply unable to find work. In the months after the recession, overall unemployment peaked at 10 percent in October 2009. At that time, the unemployment rate for adults with less than a high school diploma was 14 percent and for adults with a high school diploma was 10.2 percent, compared to 8.5 percent among workers with some college and 4.6 percent for workers with at least a bachelor's degree. For young workers between ages 16 and 24, 20 percent were unemployed one year after the recession ended.[25] Even today, the unemployment rate of adults who have not completed a high school education is over three times that of those with at least a bachelor's degree.[26]

In addition, there is evidence that workforce development and adult education programs can pay off not only for today's participants, but also for the next generation. According to one synthesis of the research, "improving the educational and employment prospects for parents in the workforce today may also do the same for their children as they enter the workforce tomorrow."[27] Indeed, there is a well-documented connection between parents' level of education and their children's skills, academic outcomes, and health. Forty percent of children whose mothers have not completed high school do not graduate on time themselves, compared to just 2 percent of children whose mothers have a bachelor's degree.

The WPR also makes it challenging for states to receive credit for providing appropriate activities to individuals with disabilities and other barriers to full participation. States may not receive partial credit for engaging recipients for less than the minimum required hours, even if they have modified the participation requirement as part of an accommodation required under the Americans with Disabilities Act. Barrier removal activities such as mental health services and substance abuse treatment are only countable toward the work participation rate as part of "job search/job readiness," which is only countable for a few weeks per year. Moreover, if part-time participation in such an activity is combined with other activities, it still uses up a full week of eligibility.

Importance of measuring and tracking outcomes across TANF goals

There is increasing consensus that the effectiveness of public programs should be measured, as much as possible, by their effects on outcomes for the populations that they are designed to serve. At the hearing, multiple witnesses spoke of the need to shift away from the work participation rate to a system that rewards states for achieving the desired outcomes, particularly employment. CLASP has long argued that Congress should replace the WPR with outcome-based performance measures that will help foster and improve the effectiveness of these programs. At the same time we urge proceeding carefully and thoughtfully, lest we replace the WPR with outcome measures that also have perverse consequences, including discouraging states from providing TANF assistance to families where the parents face barriers to employment.

Federal workforce development programs have been subject to outcome-based performance management policies for more than 25 years, starting in earnest with the implementation of the Job Training Partnership Act (JTPA) in 1982. JTPA was replaced by the Workforce Investment Act in 1998, which in turn was replaced by the Workforce Innovation and Opportunity Act (WIOA), which passed with broad bi-partisan support last year. Since the enactment of JTPA, advocates and policymakers have consistently expressed concerns that the outcomes measures under workforce programs may encourage states and localities to "cream," or limit services to those who are most likely to succeed. Such creaming can undermine both equity and impact (as creaming may result in providing services mostly to those who would have succeeded anyway). Creaming is even more alarming in the context of public benefits, where the easiest way to exclude someone from the outcome measures is to deny them cash assistance.

For example, under TANF, many programs have imposed up-front job search or community service requirements that have the effect of screening out individuals who are less likely to participate in work activities and thus will probably drag the state's WPR down. This reduces the value of the WPR as a measure of the program's effectiveness in engaging recipients in work activities, because non-participants are removed from the denominator. Simply moving from the process measure of the WPR to an outcome measure of job entries would not solve this problem.

The evidence of programs for the most disadvantaged participants confirms that even programs with proven impacts are likely to have outcomes that appear disappointing when compared to programs serving people with recent work history. For example, MDRC evaluated New York City's Personal Roads to Individual Development and Employment (PRIDE) program, an initiative that provided specialized work experience and job search services to individuals who had previously been exempted from work requirements due to disability, but who did not qualify for federal disability benefits. This program increased employment rates by more than 25 percent compared to a control group – but only a third of the recipients assigned to PRIDE ever worked in formal jobs during the two years after assignment, and only 3 percent worked every quarter of those two years.[28] Unreasonable expectations simply discourage states from serving low-income families with significant barriers to employment.

Based on CLASP's expertise with both workforce and welfare performance measures, we offer the following recommendations regarding outcome measures:

1. Data should be collected on a wide range of outcome measures, reflecting the safety net goal of TANF as well as the employment goals. For example, Washington state now collects data on the educational outcomes for children in families receiving TANF, including high school graduation rates.[29] Performance measures that only capture one aspect of a program can result in that aspect being emphasized and others neglected.
2. One lesson from WIOA is the value of including interim measures that track the progress or "momentum points," that a participant makes along a pathway that may be attained prior to employment. Examples may include educational level gains, high school diploma or equivalency attainment, postsecondary developmental/remedial education completion, among others. These metrics will increase the focus on the progression and success of participants over time and can reduce disincentives to serve participants with lower education and skill levels and barriers to college and labor market success.[30]
3. Another lesson is the importance of adjusting performance targets to reflect both economic conditions and the characteristics of the clients being served. Most policymakers and practitioners agreed that the "negotiated standards" under WIA did not sufficiently adjust in challenging circumstances, and therefore WIOA restores the use of regression models. Such adjustments also encourage states and localities to conduct thorough assessments of clients' needs to ensure that they receive full credit for serving more disadvantaged workers. Minnesota currently compares counties' performance on the self-sufficiency index to their predicted performance, based on economic conditions and other factors.[31]
4. Indicators of the well-being of poor children and families should also be tracked without regard to whether or not they receive cash assistance, which reduces the incentive to deny families benefits. States should be accountable for the choices they make about how easy or difficult it is for needy families to access benefits.
5. TANF reauthorization should include a clear expectation that states will be held accountable for the outcomes they achieve, but also provide a reasonable period to review the outcomes now being tracked by states, refine measures, collect and report data on

measures, and establish baselines before consequences such as loss of funding flexibility are associated with them.

Assuming that the WPR is not going away immediately, there are also some modest changes that could significantly reduce the negative effects of the rate as currently designed:

- First, the caseload reduction credit should be replaced by an employment credit. Under none of the stated goals of TANF is it plausible to consider someone a success who leaves assistance without any source of income. Even from the perspective of saving public money, this is a failure, as these families are likely to show up needing help in even more costly systems, such as child welfare and emergency shelters. Yet states receive just as much credit toward the WPR for someone who is sanctioned off or reaches the time limit without work as for someone who earns enough to no longer need assistance.
- Second, the restrictions on the counting of education and training should be eased, preferably eliminated. The current rules encourage states to limit recipients to very short-term certification programs, such as those to become home health aides. However, these jobs pay low wages, and it is often difficult for workers to get enough hours of work to cover their bills. Permitting longer periods of education and training would allow recipients to train for higher-paying jobs. As Ms. Anderson testified, increasing the lifetime limit for vocational education training to 24 months would better prepare able-bodied adults for employment and support long-term job retention.[32]
  Recipients who need basic skills courses in order to participate in training programs should also be allowed to take these classes. Under current rules, such classes are only countable when combined with 20 hours or more of "core" work activities. By contrast, we have been told by postsecondary financial aid offices that they rarely approve more than 10 hours per week of federal work-study funding, because they believe that more than that level of work interferes with student success.
- Third, in order to address the needs of the most vulnerable families—who have the greatest barriers to employment--states should be given more flexibility with regard to "job readiness" and barrier remediation activities and should be given partial credit for individuals who participate for less than the full required number of hours. Individuals who are dealing with homelessness, domestic violence, severe mental or physical illnesses, and addiction often need more than four weeks' time to resolve these issues. TANF recipients have a broad range of work histories and personal experiences and are poorly served by one-size-fits-all approaches. Individuals who are complying with service plans mandated by transitional housing, child welfare, or justice systems should not be subject to contradictory requirements from TANF agencies.
- Finally, the WPR should be simplified to reduce the administrative burden. Many of the most promising programs, such as transitional jobs, combine work, learning, barrier reduction and support services in different ways, and these integrated approaches should be allowed without burdensome requirements to track each component separately. States should receive partial credit for clients who can participate but not for the full hours that are expected. Ongoing job search combined with part-time employment should not be time-limited.

<u>TANF is not a model for other programs</u>

The Great Recession, lasting officially from December 2007 to June 2009, highlighted the weakness of TANF as a safety net. As unemployment climbed, TANF caseloads did not immediately grow after June 2008 and climbed only 17 percent to over 2 million families in 2010, only to continue to fall again shortly thereafter. Some states experienced larger increases, while other states – including Arizona, Georgia, Indiana, and Rhode Island – had falling assistance caseloads throughout the recession even as unemployment rose sharply.

Various state policy and procedural changes made to TANF limited the number of people served under the program even as unemployment and poverty climbed. In several states, time-limit changes immediately cleared thousands of people from TANF caseloads, in some cases including child-only cases. For example, Arizona has just shortened its time limits for the third time since 2010, to a lifetime limit of just 12 months. Even in some states where TANF responded well to the recession, policymakers subsequently instituted policy changes in order to bring caseloads back down when the Emergency Fund expired.

Some federal policymakers, including members of the Ways and Means committee, have suggested that TANF offers a model for other safety net programs. This is not the case, even if the work participation rate were simplified or replaced with outcome measures. The combination of block grant funding that forces the marginal cost of any caseload increases onto a state, flexibility that allows funds to be spread across a wide range of programs, and no minimum standards for cash assistance programs has left the poorest families in many states with a deeply shredded net.

By contrast, other programs, particularly SNAP and the EITC, have been far more responsive to increased need. These programs were also expanded by the Recovery Act (and unlike the TANF Emergency Fund, these increases were not abruptly ended in October 2010, well before the economy had recovered). However, researchers conclude that most of their increases were not due to these changes, but to their underlying structure that allowed them to respond automatically to increased need.[33] As a result, SNAP and EITC are estimated to have each lifted more than 10 million people out of deep poverty in 2012 -- while TANF lifted just 1.3 million out of deep poverty.[34] Therefore, using TANF as a model for changes to SNAP would undermine its effectiveness as a safety net and would put millions of people at risk.

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Statement for the April 30, 2015
Hearing Record

Ideas to Improve Welfare Programs to Help More Families Find Work and Escape Poverty

Submitted by the
County Welfare Directors Association of California

The County Welfare Directors Association of California (CWDA) welcomes the opportunity to submit a statement for the record for the hearing entitled: *Ideas to Improve Welfare Programs to Help More Families Find Work and Escape Poverty*.

CWDA represents the human service directors from each of California's 58 counties. CWDA's mission is to promote a human services system that encourages self-sufficiency of families and communities and protects vulnerable children and adults from abuse and neglect.

In California, counties administer and provide county financial support for social services programs, with oversight from the state.

California's Temporary Assistance for Needy Families (TANF) program is known as CalWORKs. The program serves over one million children in 551,000 cases. During Federal Fiscal Year (FFY) 2013, CalWORKS served over 50 percent of California's children living in poverty. In contrast, less than 18 percent of children in poverty nationally receive TANF assistance.

Unlike some states, CalWORKS responded to the great recession. At its peak, caseloads grew by 30 percent from 2007-2011. Given a slow recovery, average monthly caseloads have declined by about nine percent from 2010-2011 when the program was serving approximately 587,000 cases to a projected average monthly caseload in 2014-15 of slightly less than 544,000. And our state has continued to place a priority on providing cash assistance benefits, albeit with grant levels that have declined dramatically over the years. According to an analysis by Center on Budget and Policy Priorities, California ranks third, after Maine and Nevada, in the percentage (45.9%) of federal and state TANF funds spent on basic assistance in 2013.

But this county-administered program has weathered some very tough financial times over a number of years, at the expense of our most-needy families and children. CWDA is working with the state legislature and the California Department of Social Services to re-invigorate and reform CalWORKS.

As a nation and as a state, we have a long way to go to lift more children and families out of poverty. According to recent data from the California Budget and Policy Center, more than 2.5 million Californians have incomes below half of the federal poverty line, often known as 'deep poverty.' For a family of three, living in deep poverty means surviving on less than $200 per week. Nearly one-third of those Californians are children (32.7%), even though children make up less than one-fourth (24.3%) of the state population. In fact, the Census Bureau's Supplemental Poverty Measure indicates that the state has the worst child poverty rate in the nation at 27 percent.

We believe that that CalWORKs program as originally crafted was well-conceived to meet the twin goals of reducing poverty and moving people from welfare to work. In 1997, when CalWORKs was created, grants were at 57% of the Federal Poverty Level, helping keep children out of “deep poverty.” With the original CalWORKS program, there were reasonable time limits, work requirements, work supports and incentives. It was a safety net for children.

Despite its success, CalWORKs has been the target of constant, relentless change, deep cuts to services and grants, and a diminution of work incentives and the inevitable lessening of work requirements due to those cuts. At the same time counties responded to the great recession by placing more families on the program, CalWORKS suffered unprecedented, massive cuts. Over a billion dollars was cut over the years from work supportive services, lifetime limits on receipt of CalWORKS decreased from 60 to 48 months, grant levels were cut and cost of living adjustments eliminated. The huge caseload increases collided with huge cuts in CalWORKS resources, rendering serious damage to the capacity and culture of the program.

County human services agencies are beginning to implement CalWORKS changes made by the state legislature over the last two years. Our members face big challenges, but also the promise for an improved system to serve families. Most of the policy elements are being put into place to rebuild and reinvigorate the program. While CWDA opposed the shortening of time limits to 24 month for parents unable to secure employment or participate in very limited number of activities for a certain number of hours, there are a number initiatives we did support and mark a welcome change to CalWORKS policies. We also believe some of the changes may help inform the national debate on TANF reauthorization.

Changes include:

- increasing cash assistance grants which have fallen to 40 percent of the federal poverty level;
- a new appraisal tool being developed by the state in collaboration with counties to assesses a family holistically and comprehensively;
- family stabilization for clients and their families who are in crisis who are not immediately welfare-to-work ready;
- greater flexibility in providing an array of services, whether it is education, counseling and treatment services, employment, or some combination thereof;
- a restored earned income disregard; and,
- the creation of a new Housing Support Program to rapidly re-house homeless CalWORKs families, placing them in permanent housing and providing the necessary supportive services they need in order for them to retain their home.

Rebuilding and reinvigorating CalWORKS will take time and the families county agencies serve often face multiple challenges and barriers. All in all, we believe that the pieces are there to re-imagine CalWORKs into a program that serves the families we serve now, but we will continue to need the support and time to implement the programmatic improvements, weave them together, and reinvigorate the culture of a damaged program.

Our agencies and the families they serve directors still face significant challenges. Low grant levels do not protect children against the well-documented, lifelong effects of poverty and do not provide a modicum of economic stability to allow their caregivers to better focus on work and work preparation. Additionally, given the very high cost of housing in California, the inability of families to find and retain affordable, safe, and decent housing is a huge barrier to employment.

Clearly, finding and retaining a well-paying job with growth potential is key to moving from welfare to self-sufficiency. Our counties were very proud of the national leadership they took when they implemented subsidized jobs program under the TANF Emergency Contingency Fund (TANF-ECF) created by the American Recovery and Reinvestment Act (ARRA). TANF-ECF also provided low-income families with non-recurring short term assistance or basic assistance to meet ongoing needs.

California's counties and their private and non-profit partners created approximately 45,000 subsidized jobs for CalWORKs and summer youth recipients in those positions, allowing these participants to gain vital skills and maintain a work history in a time when many were unable to find even part-time positions. In Los Angeles County alone, more than 10,000 CalWORKs recipients and 15,000 summer youth were placed into subsidized jobs. In addition, the San Francisco Jobs NOW program placed over 3,800 low-income persons into subsidized jobs. Nationwide, about 260,000 persons were placed into jobs with TANF-ECF funding.

While subsidized employment continues to be a key component in moving individuals from welfare to work, county agencies are facing challenges in expanding programs. Our members report that the population they are serving today is harder to employ, and employers are more difficult to recruit than when the ARRA-funded program was being administered. During the ARRA, counties had many CalWORKs recipients who were recently unemployed and were work-ready, and employers were welcoming of the opportunity and financial incentives to re-employ people.

As the state emerges from the recession, a number of our counties report that homelessness among CalWORKs families continues to grow. Clearly, without stable housing, it is extremely challenging for those families to gain a foothold on the path to self-sufficiency. Los Angeles County is one of our members that has seen a spike in homeless CalWORKs families. Between July 2006 and November 2014, their overall caseload increased 11 percent, to 169,910 families but their homeless caseload increased 188 percent to 15,814 families.

Last year, the legislature established the Housing Support Program (HSP) for those families. Funded initially at $20 million for 20 of the 58 California counties, HSP is projected to place more than 3,000 homeless CalWORKs families in permanent housing, using a rapid re-housing model. HSP brings evidenced-based employment and supportive services together with housing supports, including rental assistance, credit repair and financial literacy.

This year, CWDA is supporting a $30 million increase in HSP funding, so that more of our counties are able to respond to this critical need.

<u>TANF Reauthorization Priorities</u>

Subsidized Employment: Due to its success in getting individuals back to work, CWDA urges that a robust subsidized employment program be created in a TANF reauthorization bill. As noted above, we had particular success in administering a program under ARRA.

Although ARRA funds were no longer available following the Act's expiration, our state Legislature and the Brown Administration have been supportive of continuing the investment in this important support. In 2013, subsidized employment was expanded through the 2013-14 California state budget in order to create more opportunities for individuals to participate in the labor force, with funding increased even further the following year, as part of the 2014-15 state budget. These investments demonstrate the state and counties' ongoing commitment to supporting individuals and families through increased earnings, employment, and the acquisition of marketable skills.

Recent research demonstrates the effectiveness of subsidized employment. In Los Angeles County, individuals who participated in subsidized employment were shown to have higher earnings in the year after their participation, suggesting that such participation leads to an improvement in income and job prospects (2013, Economic Mobility Corporation).

While not a perfect solution, data indicate that many CalWORKs do indeed transition off into unsubsidized employment after participating in a subsidized job. California Department of Social Services' data demonstrate that 48 percent of participants found unsubsidized employment after completing a six to 12-month job placement. Sixty-three percent of San Francisco's "Jobs Now" participants during July 2011 and March 2013 had earnings in the quarter after the subsidy ended and 60 percent had earnings in the second quarter.

When a public program benefits all involved, it's considered sound policy. Subsidized employment is just such a sound policy – it has positive effects for individuals, families, businesses and the economy. Given broad bipartisan agreement that the surest path out of poverty is a good job, subsidized employment can provide an important step forward on that pathway for those who have struggled to gain a foothold in the country's economic recovery.

Four Guiding Principles for Reauthorization

As the Subcommittee considers reauthorization of TANF, CWDA have crafted a set of TANF reauthorization priorities delineated below.

These recommendations are organized around four guiding principles:

- Maintain the overall work focus of the program, while recognizing that "work first" does not mean "work only." Research indicates that the most successful welfare-to-work programs combine work with training and supportive services, as appropriate.
- Restore and enhance state (and, in California, county) flexibility to tailor work and family stabilization activities and services such as child care to families' individual needs.
- Measure states' performance in a fair and comprehensive manner that recognizes multiple potential positive outcomes for families.
- Rebuild the partnership between the federal government, states and counties and move forward with common goals.

Maintain Work Focus, With Training and Support for Families

1. Recognizing that not every family can immediately enter the workforce, especially in the current economic climate, countable work hours should be expanded to include:

    a. Vocational training and education for up to 24 months (the current limit is 12).

    b. A longer period of job search and job readiness training, including participation in job search/job readiness through the life of a case if combined with work and elimination of the four-consecutive-week constraint for job readiness activities.

c. English as a Second Language training and GED preparation.

d. Additional supportive activities such as mental health and substance abuse treatment.

2. Encourage and enhance linkages across programs to better serve families. Because many families have involvement in multiple systems, encourage collaboration and give states a clear ability to share basic information between TANF and other agencies, such as child welfare, education, workforce development and child support agencies. Incentivize states to serve families across these programs. As the final rules and guidance are issued for the new Workforce Innovation and Opportunity Act, CWDA looks forward to engaging with its partners in providing WIOA services to more CalWORKs participants.

Restore and Enhance Flexibility and Trust

1. Recognize participation in work activities in a manner that reflects labor market conditions and the realities of families served by TANF, by:

    a. Establishing a pro-rata credit for partial participation in work and work-related activities, including hours spent in non-core activities.

    b. Eliminating the unrealistic 90% two-parent participation rate. The all families rate should apply to all cases.

    c. Restoring the pre-Deficit Reduction Act (DRA) exclusion of families without an aided adult from the work participation rate calculation. States like California chose to aid children independent of their parents or caregivers in a number of circumstances, which allows the counties to keep in contact with these families, spot problems and work with families to overcome issues that arise. Federal rules should not penalize states like California for this decision or, worse, force these states into a situation where they have no choice but to consider cutting off assistance to these children and losing all contact with struggling families.

    d. Recognizing activities that help stabilize families as participation in work activities.

2. Encourage stable funding and maximize effectiveness of TANF funds, by increasing the availability of funds to offset lost purchasing power due to the TANF block grant, with new funding targeted toward cash assistance for families or services to help aided parents, and non-custodial parents, find and retain employment. To the extent that state participation is required, use a more traditional matching structure rather than an all-or-nothing MOE.

3. Provide for reasonable time to engage families. Specifically, states should have the option, on a case-by-case basis, of excluding new cases from the work participation rate for the month of application and the month following application, recognizing that most states take 30 to 45 days to process an application and

provide benefits retroactively, making the third month of assistance the first month in which a family can realistically be engaged in work activities for a full month.

Measure Performance Fairly and Comprehensively

1. Give states the option to use additional performance measures. The work participation rate is not the only measure of program success. Additional measures should be developed, in partnership between the federal government, states and counties, which could be used to measure the impact of both TANF assistance and non-assistance expenditures. Possible examples include employment wages and job retention.

2. Recognize the impacts of unemployment on TANF participation. States should be given additional credit toward their work participation rates if the state's unemployment rate has risen above an established base rate. A Beacon Economics study (2009) cited several studies indicating that a one-point rise in unemployment rates raised TANF caseloads by as much as 6 percent.

Rebuild the Partnership

1. Identify and build on common goals. The four purposes of TANF, which are clearly delineated in the 1996 enabling legislation, provide a framework for the program's next phase. Reauthorization offers an opportunity to consider how to best work together at all levels of government, and across program lines, to help children and families in poverty move toward self-sufficiency. Counties encourage the federal government to view us as partners and to engage us in TANF reauthorization as well as the development of program rules and regulations.

2. Revise onerous work verification requirements. The Deficit Reduction Act and subsequent program rules moved states away from the task of enhancing work participation and family self-sufficiency and back towards the process-heavy Aid to Families with Dependent Children model. Overly stringent work verification requirements negatively impact employers, educational institutions, service providers, clients and counties. States and counties welcome effective program oversight, but urge a more outcome-driven focus more consistent with the TANF program envisioned in 1996.

Thank you for giving CWDA the opportunity to submit this statement for the record. We stand ready to assist the Subcommittee as it prepares to reauthorize the program.

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Comments for the Record
United States House of Representatives
Committee on Ways and Means
Subcommittee on Human Resources

Hearing on Next Steps for Welfare Reform: Ideas to Improve Temporary Assistance for Needy Families to Help More Families Find Work and Escape Poverty
April 30, 2015

By Peter Germanis

Chairman Boustany, Ranking Member Doggett, and members of the subcommittee,

Thank you for the opportunity to submit written comments on the next steps for welfare reform, particularly ideas to improve the Temporary Assistance for Needy Families (TANF) program find work and escape poverty. I am writing as a citizen and in my capacity as a conservative welfare expert to express my concerns on this topic. I was a political appointee in President Reagan's White House and senior aide to Chuck Hobbs, the chief architect of President Reagan's 1986 welfare reform proposal, *Up from Dependency: A New National Public Assistance Strategy*. I have also worked for and written about welfare at conservative think tanks like the Heritage Foundation and the American Enterprise Institute. My advice to you is simple: start over – TANF is a massive policy failure!

Many conservatives believe the 1996 welfare reform law, especially the creation of the TANF program, was an "unprecedented success" and a model for reforming other welfare programs. Contrary to conventional conservative wisdom, I believe that the creation of TANF in the 1996 law gutted the welfare reforms of President Reagan -- the modest JOBS work requirements in the Family Support Act of 1988 and the evidence-based approach to welfare reform through waivers. I am not trying to idealize these reforms, but they were something that Congress could have built on.

The creation of TANF, a block grant with excessive state flexibility, set in motion changes that would: (1) initially provide large windfalls of federal funds for states, but also put in place a funding structure that in the longer-term would provide insufficient resources due to inflation and demographic changes (with similar effects for the state funded maintenance of effort provisions); (2) give states excessive flexibility to use federal funds to supplant their own spending; (3) give states excessive flexibility to convert TANF (over time) to a giant slush fund with minimal reporting and accountability provisions; (4) impose a Rube Goldberg-like set of bureaucratic and ineffective funding formulas and requirements; and (5) give states excessive flexibility to avoid or evade virtually all of the federal requirements in the law, most notably work requirements and time limits. The result is a safety net with massive holes – one that is not effective in providing either basic assistance to needy families or ensuring that low-income parents receive the work-related activities and services to lift themselves out of poverty.

While a full analysis of these issues is beyond the scope of this written testimony, I am preparing a lengthy statement that will address these points. My main concern about TANF is its effects on poor families, but my written comments today will focus on TANF's work requirements and will demonstrate how the 1996 law itself gutted the modest work requirements in place at the time.

Background

The Family Support Act of 1988 imposed the first real work requirements on states under the new Job Opportunities and Basic Skills Training (JOBS) program. By fiscal year (FY) 1995, states were to have 20 percent of their nonexempt caseloads involved in a work, education, or training activity for an average of 20 hours per week. About half of the Aid to Families with Dependent Children (AFDC) caseload was exempt (primarily single mothers with a child under the age of three) and thus excluded from the participation rate calculation.

On paper, TANF sounds much tougher. TANF raised participation requirements to 50 percent of all families and 90 percent of two-parent families. It also narrowed exemptions and made changes to the countable work activities (permitting states to count hours in employment and restricting the hours and types of educational activities that can be counted). However, the work participation standards are reduced by a caseload reduction credit, initially by the percentage caseload decline from FY 1995 (not counting reductions due to federal and state eligibility changes) and later from FY 2005 (effective with the work participation rates starting in FY 2007). Thus, the effective standards states face are often less than the 50 percent (overall rate) and 90 percent (two-parent rate) targets, and vary by state. States that fail to meet work requirements are at risk of a financial penalty in the form of a reduced block grant.

How TANF Gutted Work Requirements

The TANF law was written in such a way that it gave states a variety of loopholes to avoid the work requirements. For most states, the caseload reduction credit alone was sufficiently generous to avoid the need for any gimmicks or loopholes, but – when it was not – other options were available. None of these loopholes was allowed under the previous AFDC/JOBS program.

#1. Caseload Reduction Credit (before the Deficit Reduction Act). The caseload reduction credit lowered the work participation targets to the extent sates lowered caseloads below FY 1995 levels. For example, if a state's caseload fell 30 percent from FY 1995 to FY 2001, its target rate requirement for the overall rate for FY 2002 would have been 20 percent instead of 50 percent. The national TANF caseload peaked in March 1994 and then started a six-year period of steady decline. The caseload reduction credit gave states credit for declines starting in FY 1995 (using the average monthly caseload). Since most states did not implement TANF until sometime in 1997 (as late as July 1), they received credit for declines that occurred before TANF was implemented. And, most of the decline even after TANF implementation would have occurred regardless of whether TANF was enacted or not, whether it was due to the economy, expansions in aid to the working poor, or the real welfare reforms begun using state waivers.[1]

[1] TANF is not "welfare reform"; it is largely just a change in federal-state funding arrangements and responsibilities.

As a result, the credit largely eviscerated the work requirements as many states have had no requirement or a near-zero percent target rate throughout TANF's first 15 years. (See Table 1: The Myth of the 50 Percent Work Requirement.) Indeed, through FY 2011, about 20 to 30 states had work requirement targets of 0 percent. <u>In other words, there was no work requirement!</u>

Table 1: The Myth of the 50 Percent Work Requirement

	Fiscal Year													
Target	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
0%	6	24	31	28	20	19	16	15	17	3	21	21	21	22
1-10%	23	19	11	13	20	14	17	16	14	5	0	1	3	2
11-20	16	6	5	7	7	13	11	14	14	6	10	10	8	8
21-49%	6	2	4	3	4	5	7	6	6	36	18	18	18	18
50%	0	0	0	0	0	0	0	0	0	1	2	1	1	1

Source: Annual HHS work participation rate reports.

In testimony before the Senate Finance Committee, Ron Haskins, a key congressional staffer involved in drafting the law, acknowledged that "…because of the caseload reduction credit, the average state now has only a 5 percent work participation requirement and many states have a zero requirement. States argue that they have done a good job even without a true work requirement."[2]

One of the conceptual problems of the caseload reduction credit is that it does not make any distinction between caseload changes due to welfare-to-work efforts and the economy, demographic changes, or other policy changes such as expansion of the Earned Income Tax Credit. So, during good times, if caseloads fall, states get an added benefit of a reduced work rate target. Conversely, during an economic downturn, they may not receive a credit, even if they are running effective welfare-to-work programs. States already had an incentive to reduce the caseload because the number of cases they would have to place in work activities would decline; giving them further credit in reducing the target rate all the way to 0 percent (or near-zero) gutted the work requirements in most states. Most of the decline that occurred after the 1996 law would have happened anyway, whether due to the economy, increased aid to the working poor, and welfare reform through waivers. To the extent TANF had an effect it was because Congress vastly overpaid states by basing the block grant on historic spending levels, rather than the amount that they would have otherwise received. (States did not need TANF to implement changes to their cash assistance programs; they could do that through waivers.)

Congress should have picked a target rate that is reasonable, predictable, and constant. The pre-TANF 20 percent standard was a tougher standard in most states than TANF's putative 50 percent rate and it was certainly less subject to gaming and manipulation (see loopholes below).

#2. Caseload reduction credit after the Deficit Reudction Act – the discovery of "excess MOE."
Congress tried to address the problem of excessive caseload reduction credits in the Deficit Reduction Act of 2005 (DRA) by recalibrating the base year from FY 1995 to FY 2005.

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[2] Testimony of Ron Haskins, Senior Fellow, Brookings Institution , and Senior Consultant, Annie E. Casey Foundation, before the U.S. Senate Committee on Finance, February 20, 2003, available at: http://www.brookings.edu/~/media/research/files/testimony/2003/2/20welfare-haskins/20030220.pdf.

Nevertheless, it wasn't long before states used the credit to drive down their effective target rates—over 20 states had a 0 percent target for the FY 2008-FY 2011 period. Much of the post-DRA caseload reduction reflected in the credit wasn't due to real caseload declines, but because of a regulatory provision that allowed states to reduce their comparison year caseload by spending in excess of their maintenance-of-effort (MOE) requirement (often referred to as the "excess MOE" provision.) The technical details of this provision are beyond the scope of this statement, but this has encouraged states to go out and find spending that could be counted as MOE. As Grant Collins, former TANF official in HHS, explained in testimony before the House Ways and Means Committee:

> Because of the excess MOE credit, States began looking at spending in other departments throughout government that could be claimed in the TANF program, as is allowed under current program rules. So a State may begin counting new child care programs, prekindergarten classes, or earned income tax credits as TANF spending. The State may even count volunteer hours as MOE by multiplying the hours by an estimated wage and reporting this as TANF spending. States can also report spending by third parties as MOE. For example, a State may count the value of food given out at food banks as TANF spending.
>
> In closing, I want to point out that none of these practices are illegal. None of them are questionable according to current policy. States cannot be blamed for working within rules and regulations to meet Federal requirements. However, based on my experience as overseeing the TANF program and implementing the Deficit Reduction Act regulations, I believe that this combination of factors has resulted in weaker work requirements, less investment in TANF families, and fewer families becoming self-sufficient.[3]

Indeed, one of the unintended effects of the DRA was to lead states to simply find more third-party spending to count as MOE, including third-party nongovernmental expenditures, just to artificially inflate the caseload reduction credit. As Collins notes, this led to even weaker work requirements; it also undermined the integrity of the program as a whole.

The initial inclination for dealing with this issue might be to eliminate (or limit) this "loophole," but this would simply lead to a different loophole – solely state funded programs. Then, the hunt will be for MOE to satisfy TANF's basic MOE requirement and any "excess" to simply fund assistance cases outside the TANF/MOE structure.

#3. Separate state programs. When Congress created TANF, it replaced a federal-state matching rate with a block grant and a MOE requirement. And, because of the wording of the law, cash assistance could be provided under a variety of funding streams – federal funds, comingled funds (federal and MOE funds together), segregated state MOE funds, or separate state program funds that count as MOE. Families assisted through separate state programs were not subject to most of TANF's requirements, including work requirements. This loophole arose either because of careless statutory construction or Congress intentionally created a massive loophole. A 2005 GAO report noted that some states had placed families in separate state

[3] See: Hearing on State TANF Spending and its Impact on Work Requirements, at: http://waysandmeans.house.gov/news/documentsingle.aspx?DocumentID=319232.

programs to "remove those families from the calculation of work participation rates."[4] Over half the states had such programs. The most common populations that were moved to this funding stream were two-parent families, because the 90 percent work participation rate target was considered unachievable. States also moved other families that were not likely to meet the work requirements, including those applying for Supplemental Security Income (SSI), with employment barriers, or caring for a disabled family member.

#4. Solely state funded programs after the Deficit Reduction Act. Congress eliminated the separate state program loophole in the Deficit Reduction Act of 2005, by requiring states to include such families in the work participation rate calculation. However, the TANF law has made it very easy for states to meet their basic MOE requirement without spending more money and indeed most states report an "excess" amount of MOE. Indeed, states were only required to spend 75 percent of their previous spending, resulting in an immediate state savings. Inflation has further reduced the state requirement so that it is 50 percent of what it was before TANF. Add to this the fact that under TANF states can count virtually any state expenditure that meets a TANF purpose and even the value of third-party non-governmental spending, it's easy to see how states can have a significant amount of "excess MOE." As noted above, this can be used to maximize the caseload reduction credit, but a state can also just fund part of its assistance caseload outside the TANF/MOE structure so those families are not subject to work requirements. And, in FY 2007, the first year the DRA's provisions went into effect, many states did indeed create such programs to meet their work rates.[5]

#5 Broad state definitions of work activities. When Congress wrote the TANF statute, it "defined" work activities simply by listing 12 activities that could be counted toward the work rates. An August 2005 report by the GAO explained that some states were defining work activities to include bed rest and personal care activities as part of recovery from a medical problem, physical rehabilitation including massage and exercise, personal journaling and motivational reading, participation in a smoking cessation program, and other activities typically not considered "work activities."[6]

In its response to the GAO report, HHS noted that while it had the authority to regulate the definitions of work activities, it initially had chosen not to because of the law's emphasis on state flexibility. The HHS response also noted that "consistency" in the measurement of work rates was not a goal of the 1996 law, as Congress explicitly gave 20 states authority to continue their earlier waivers which permitted different definitions of work activities and other provisions related to the work requirements. It also allowed states to place families in separate state programs that count as maintenance-of-effort and are totally excluded from the federal work participation requirements. If Congress wanted specific definitions, it should have defined the activities itself or directed HHS to do so (as it did in the Deficit Reduction Act of 2005).

[4] GAO, *HHS Should Exercise Oversight to Help Ensure TANF Work Participation Is Measured Consistently across States*, August 2005, available at: http://www.gao.gov/assets/250/247482.pdf.
[5] See Liz Schott and Sharon Parrot, "Designing Solely-State Funded Programs: Implementation Guide for One "Win-Win" Solution for Families and States," Center on Budget and Policy Priorities, July 16, 2007.
[6] *HHS Should Exercise Oversight to Help Ensure TANF Work Participation Is Measured Consistently across States*, August 2005, available at: http://www.gao.gov/assets/250/247482.pdf.

It is interesting to note that Wisconsin, which is often hailed as a model when politicians point to TANF's success, was one of the pioneers in the use of these broad definitions.[7] In fairness to Wisconsin and other states, it is unlikely that many states counted significant numbers of people in these activities; after all, many states like Wisconsin had a 0 percent target due to the caseload reduction credit. However, for states that needed this loophole, it was available.

#6 Waiver inconsistencies. States with section 1115 welfare reform waivers when the 1996 welfare reform law was enacted were allowed to continue the waiver policy to the extent it was inconsistent with TANF through the end of the approved project period. While states still had to meet the new work participation rate targets, they could continue to operate under pre-TANF policies that often gave them a distinct advantage in the meeting these rates. Twenty states continued such waivers, which included provisions related to exemptions, countable work activities, and hours of participation.[8]

It is ironic that Governor Mitt Romney, while in the midst of his presidential campaign, asserted, "We must restore, and I will restore, work into welfare." In FY 2005, in the midst of his term as governor, Massachusetts had the lowest work participation rate in the nation (when measured according to TANF rules) at just 12.6 percent; however, the state's pre-TANF waivers gave it a huge advantage in meeting the work rate by exempting parents with a child under six years of age and removing TANF's strict limits on how long education activities can be counted. Thus, its rate with the waivers was 59.9 percent.[9] It is unclear why Congress thought it was fair to give some states such a huge advantage in meeting their work targets (and potentially avoiding a financial penalty) for as long as 5 to 10 years after enactment of TANF.

 # 7 Adding unsubsidized employment as a countable work activity. Under JOBS, a full-time worker was exempt from participation requirements; TANF made it a countable activity. This made it considerably easier for states to meet their work rates. The states that gained most from this decision are those with the highest breakeven levels (which are a function of the generosity of benefits and earnings disregards). Historically, most states have simply counted the hours of unsubsidized employment to meet most of their work requirements, lessening the focus to place individuals in real activities. In many states, fewer than 10 percent of families were involved in an actual work activity. Writing in 2004, Doug Besharov and I recommended "toughening TANF" by requiring a 10 percent target, but in more narrow, but real, work activities: "Establish a separate minimum participation rate for work experience, on-the-job training, and other designated forms of education and training of 10 percent—to add a needed focus on activities that build human capital."[10] Even today, this would be a tougher standard to meet than the actual TANF requirements.

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[7] See Wisconsin's 2004 Annual Report: http://archive.acf.hhs.gov/programs/ofa/data-reports/MOE-04/wisc-04.htm.
[8] For more detail, see Gene Falk, *Temporary Assistance for Needy Families: Welfare Waivers*, Congressional Research Service, September 6, 2012, at: http://democrats.edworkforce.house.gov/sites/democrats.edworkforce.house.gov/files/documents/112/pdf/TANF-CRSMemo-9.6.12.pdf.
[9] See HHS data, Table 1B available at: http://www.acf.hhs.gov/sites/default/files/ofa/wpr2005.pdf.
[10] See Douglas J. Besharov and Peter Germanis, Toughening TANF: How Much? And How Attainable? March 23, 2004, available at: http://www.welfareacademy.org/pubs/welfare/toughening_tanf.pdf.

#8 Unsubsidized employment as a loophole. One of the gimmicks states employ to meet work rates, either to avoid a penalty or as part of a corrective compliance plan to meet the rate and cure a penalty, is to pay a token benefit to full-time working families just to be able to count them in the work rate calculation. For example, Ohio submitted a corrective compliance plan to address three years of failing to meet work rates (FY 2007-2009) in an attempt to avoid about $135 million in penalties. The central element of its corrective compliance plan had nothing to do with engaging more families in work activities. Instead, the plan would make $10 payments to SNAP participants who have a child and have enough in earnings to be counted toward the TANF work rate.[11] According to the Ohio Department of Jobs and Family Services, the program operated for only six months in FY 2012, serving an average of 72,323 families per month at a cost of $4.3 million.[12] So, by investing $4.3 million in what is really a gimmick, the state gutted the work requirement in FY 2012 and in doing so may not only meet the rate for that year, but potentially wipe out accumulated penalties from prior years. This did virtually nothing to help low-income families get jobs and wasted federal and state staff time dealing with a gimmick.

Ohio is just one of many states that have used this loophole or similar programs. Again, this practice began widespread starting in FY 2007, when the new DRA rules took effect.[13] So, now states add tens of thousands of cases to the welfare rolls just to evade the work requirements. This loophole is possible because Congress made unsubsidized employment an activity; it would not have happened if it had remained an exemption as under JOBS.

#9 Creating child-only cases. TANF work requirements initially were applied to a family with an adult receiving assistance. In some states, sanction policies and time limits removed an adult's needs from the benefit calculation. Since no adult was receiving assistance, the family was no longer included in the work participation rate calculation. In contrast, if a state had an alternative sanction or time limit policy, e.g., reducing the family's grant by a fixed dollar amount or percentage, the adult was still considered to be receiving assistance. While only about a dozen states had such policies, California was one of the states so the number of families effectively exempted by this loophole was not trivial. This loophole was also created by the law, because it limited work requirements to families in which a TANF adult was receiving assistance. This policy was largely ended by the DRA, when HHS issued regulations including certain non-recipient parents in the work rate calculation. Of course, this just led states to adopt other loopholes.

#10 Creating diversion programs. Many states have provided TANF applicants non-recurrent short-term benefits (i.e., diversion payments) as a way to help them overcome a short-term crisis without actually going on the assistance rolls. Because short-term (less than four months) benefits are not considered "assistance," many TANF requirements do not apply, most notably the federal 60-month time limit and work requirements. Shortly after passage of the DRA, a number of states began operating diversion programs for all or most TANF applicants, because many could not immediately be transitioned into work activities and would thus lower a states

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[11] See: John Kasich, Executive Order 2011-19K, http://www.governor.ohio.gov/Portals/0/pdf/executiveOrders/2011-19K.pdf.

[12] See: http://www.lsc.state.oh.us/fiscal/redbooks130/jfs.pdf.

[13] See Liz Schott, "Using TANF or MOE Funds to Provide Supplemental Assistance to Low-Income Working Families," Center on Budget and Policy Priorities, July 23, 2007.

work participation rate. For example, Pennsylvania created a Work Support Component (WSC) Program for employable adults. Families could participate for 4 months in a 12-month period and would receive benefits that were essentially the same as those of TANF families receiving assistance. During the initial period in WSC, families develop a work plan and engage in job search and job readiness activities. As soon as the family participates enough hours in a countable activity, it is seamlessly transferred to the TANF assistance and counted in the work participation rate. So, the state could exclude families from the work participation rate for up to four month if not participating sufficient hours to count, but then transfer them as soon as it could.[14] HHS issued guidance warning states about this practice.[15]

While the HHS guidance may have limited the most egregious examples of states taking advantage of this loophole, the decision about whether one form of diversion is gaming or not is ultimately a judgment call. Given the limits Congress placed on the Executive Branch in section 417 of the Social Security Act, this loophole remains a potential option, at least to some degree.

TANF is Broken!

It is not surprising that poverty declined throughout most of TANF's early years – the economy was strong, aid to the working poor was expanded (most notably the EITC), states had embarked on welfare reform before TANF was enacted (and didn't need TANF to test innovative reforms), and the block grant provided states massive windfalls of federal funds in the first five to ten years. But, the longer-term effects of TANF were predictable and they have been devastating. The TANF block grant is not adjusted for inflation, population growth, or economic conditions; and, states have learned how to avoid most federal requirements. So, consider the following thought experiment:

> Suppose (without affixing blame to any party or branch of government) 15 years after TANF was enacted, federal fiscal and/or monetary policies, corporate greed, the real estate bubble, and other factors caused a Great Recession that caused child poverty to rise above the levels that existed in 1995 (and between 1995 and 2010 child poverty did rise from 14.7 million to an all-time high of 16.4 million; and even by 2013 it had fallen only to the 1995 level). And, suppose due to inflation the TANF block grant and maintenance-of-effort (MOE) requirement have declined in real purchasing power by about one-third (and, for MOE, this was already set at just 75 percent of historic spending). And, suppose states have used federal TANF funds to supplant existing state expenditures and to divert the funds away from core welfare reform purposes. And, suppose states have learned how to count third-party expenditures, including those from non-governmental organizations, to reduce their own MOE commitment. And, suppose states have figured out how to take advantage of loopholes in the law to avoid work requirements, time limits, and other federal requirements.

[14] See Liz Schott, "Up-Front Programs for TANF Applicants," Center on Budget and Policy Priorities, July 16, 2007.

[15] TANF-ACF-PI-2008-05 (Diversion Programs) (AMENDED), May22, 2008, at: http://www.acf.hhs.gov/programs/ofa/resource/policy/pi-ofa/2008/200805/pi200805.

Well, that's exactly what happened, so even if TANF were successful in the beginning, there is no way it could be successful now.

Interestingly, Wisconsin, a state long lauded by conservatives for its welfare reforms, is a prime example of TANF's failure as a safety net and work program. Unlike Governor Thompson, who reaped a massive windfall from TANF (as Congress overpaid all states), Governor Walker is getting far less in TANF funding when adjusted for inflation and is dealing with a nearly 40 percent increase in the number of poor families with children. And, unlike Governor Thompson, who faced a 0 percent work target throughout most of his Administration thanks to the caseload reduction credit, Governor Walker (according to the Wisconsin Legislative Fiscal Bureau) will face a 50 percent requirement and fail in 2012 and 2013. Wisconsin thus faces the prospect of significant financial penalties. Table 2, "A Tale of Two Governors: The Best of Times and the Worst of Times," contrasts TANF in these two eras.

Table 2
A Tale of Two Governors: The Best of Times and the Worst of Times

	Gov. Thompson (1997)	Gov. Walker (2012)
TANF Block Grant (2014$)	$467.8 million	$327.7 million
Windfall/Deficit vs. 1996 (2014$)	$105.7 million	-$34.4 million
# of poor families w/children	82,984	114,395
$ per poor family w/children (2014$)	$5,637	$2,865
Work Rate Targets	1997: 8% 1998-2006: 0%	2011: 0% 2012-2014: 50%

Sources: CBPP for poverty data; GAO for state-specific 1996 spending and block grant amounts and thus the calculation of the windfall in federal funds. For Wisconsin work rate targets, see: Wisconsin Legislative Fiscal Bureau, *Wisconsin Works (W-2) and Other Economic Support Programs*, January 2015. Wisconsin's deficit in FY 2012 is relatively smaller than most states because it got one of the biggest windfalls when TANF was enacted. This deficit will continue to grow in the future.

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The sharp reduction in funding, along with the fact that Wisconsin has used TANF dollars to fill other budget holes (as have most states), means the state has done a poor job in serving families in poverty. Before TANF, the ratio of families receiving TANF to families with children below poverty was 96 per 100 poor families; by 2012/13 this had dropped to 24 per 100.[16] Can anyone in good faith call this success?

Wisconsin is not alone. This same story is playing out across the country. And, TANF's failure is not the fault of today's governors, but rather TANF's block grant structure. Of course, any state that fails to meet its work requirements can avoid a penalty by entering into a corrective compliance plan, and then use gimmicks (that became available to the states when the law passed), like a number of other states already have, but that does nothing to provide for the needs of the poor or help them become self-sufficient.

[16] Center on Budget and Policies, "Wisconsin: TANF Caseload and TANF-to-Poverty Ratio Fact Sheet," available from: http://www.cbpp.org/sites/default/files/atoms/files/tanf_trends_wi.pdf.

Please note that I am not blaming any governor here or in earlier examples for taking advantage of loopholes. Given TANF's structure, it is inevitable.

Conclusion

My written testimony just scratches the surface of TANF's failures. To fix TANF, Congress must address its core problems, which stem from the block grant structure and excessive state flexibility, and, in the case of work requirements, some poor decisions, most notably the caseload reduction credit and counting employment as an activity. While some may think that the loopholes I have outlined above can be closed, that would be a mistake – at least as long as it is a block grant. Trying to fix TANF's work requirements by addressing one loophole at a time, as Congress tried to do in the DRA, may simply result in another decade in which nothing meaningful happens to deal with the program's deficiencies. The first steps to reform should involve getting rid of the block grant structure, which allows states to segregate federal and state funds in ways to undermine all federal requirements, and narrowing the range of allowable activities to focus on core welfare reform purposes – basic assistance and welfare-to-work activities and supports.

I feel like the ancient Greek philosopher, Diogenes of Sinope, who once said, "Other dogs bite only their enemies, whereas I bite also my friends in order to save them." This testimony is a harsh criticism of TANF and the congressional process that produced this law, but it is also intended to be an honest and helpful account that will help you avoid future policy failures. I believe you are sincere in your statements about wanting to give the poor a "hand up." The TANF program, particularly one with a fixed level of funding and excessive state flexibility, is not well-suited to do this.

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I am writing as a citizen and my statement reflects my personal views. It does not represent the views of any organization I have ever been or am now affiliated with.

United States Government Accountability Office

Statement for the Record to the House Committee on Ways and Means, Human Resources Subcommittee

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TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

An Overview of Spending, Federal Oversight, and Program Incentives

Statement for the Record by Kay E. Brown, Director,
Education, Workforce, and Income Security Issues

GAO Highlights

Highlights of GAO-15-572T, a statement for the record to the House Committee on Ways and Means, Human Resources Subcommittee

April 2015

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

An Overview of Spending, Federal Oversight, and Program Incentives

Why GAO Did This Study

The TANF block grant provides $16.5 billion annually in federal funding to states for cash assistance as well as a variety of other benefits and services to meet the needs of low-income families. TANF requires states to maintain a specified level of their own past welfare spending to receive all of their TANF funds. In fiscal year 2013, states spent a total of $31.6 billion in federal TANF and related state funds on cash assistance and other services for low-income families. GAO was asked to provide information from its recent reports to inform a hearing on next steps for welfare reform.

This statement addresses (1) states' use of TANF funds, (2) TANF's accountability framework, and (3) innovation and evaluation in the TANF program, drawing primarily from GAO reports issued from 2010 to 2014. For these reports, GAO reviewed and analyzed state TANF data reported to HHS from fiscal year 1997 through 2013; reviewed relevant federal laws, regulations, and guidance; interviewed HHS and state TANF administrators; and conducted visits in selected states.

What GAO Recommends

In its prior work, GAO recommended that HHS take steps to improve TANF expenditure reporting and identify potential changes to address the lack of incentives in the TANF program. HHS has taken some action. GAO has also suggested Congress consider ways to improve performance information when TANF is reauthorized. Consequently, GAO is not making any new recommendations at this time.

View GAO-15-572T. For more information, contact Kay Brown at (202) 512-7215 or brownke@gao.gov

What GAO Found

While the Temporary Assistance for Needy Families (TANF) block grant serves as the nation's major cash assistance program for low-income families with children, states increasingly use it as a flexible funding stream for supporting a broad range of allowable services. For example, in December 2012 GAO found that nationwide, in fiscal year 1997, states spent about 23 percent of TANF funds on services other than cash assistance, such as child welfare or child care. In contrast, states spent more than 66 percent of TANF funds for these purposes in fiscal year 2013, according to the most recent available data from the Department of Health and Human Services (HHS).

TANF's accountability framework has limitations in both the approach used for measuring work participation and the information that is available on trends in services other than cash assistance. One program performance measure, the work participation rate, measures the extent to which states engage work-eligible TANF cash assistance recipients in work activities as defined by federal law. In May 2010, GAO found that states often relied on several options allowed in law, including credits for caseload reductions, to reduce the percentage of families they needed to engage in work to meet their work participation rate requirements. Thus, GAO concluded that the rate's usefulness as an indicator of TANF performance is limited. There are also no reporting requirements mandating performance information specifically on families receiving services other than cash assistance. To fully assess how funds are being used, GAO suggested Congress should consider ways to improve performance information when TANF is being reauthorized. In response to GAO's 2012 recommendation that HHS develop a detailed plan to revise reporting categories for TANF expenditures to provide a more complete picture on the use of TANF funds, HHS has taken steps such as revising its reporting form and accounting methodology for expenditure data. HHS has also cited a statutory provision as preventing it from reporting an improper payment estimate for the TANF program, but says it will seek statutory modifications to allow for such an estimate when the program is reauthorized.

Incentives are often lacking for state and local TANF agencies to adopt and test promising approaches for moving cash assistance recipients from welfare to work, according to a November 2014 GAO report. State use of federal TANF funds for services that are not necessarily related to welfare-to-work activities may compete with funding for developing promising approaches for TANF cash assistance clients. Also, the federal work participation rate requirements may discourage states from pursuing approaches that incorporate longer-term education and training or treatment services, or from engaging hard-to-employ individuals in work activities as states can meet their work participation rate requirements by using the law's other options. In addition, little incentive exists for states to evaluate their TANF programs, and states are not required to do so, although these evaluations can provide useful information on program effectiveness. GAO recommended that HHS, in consultation with Congress, identify potential changes to address the lack of incentives to adopt and test promising approaches and submit a legislative proposal outlining those changes. HHS agreed with the recommendation but has not yet suggested program changes.

Chairman Boustany, Ranking Member Doggett, and Members of the Subcommittee,

I am pleased to submit this statement on our recent work covering key aspects of the Temporary Assistance for Needy Families (TANF) block grant. As you know, in 1996 the federal government made sweeping changes to federal welfare policy by replacing the previous cash assistance program with the TANF block grant to states. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA),[1] which created TANF, ended the Aid to Families with Dependent Children (AFDC) program that had entitled eligible low-income families to monthly cash assistance. Instead, TANF provides $16.5 billion per year in fixed federal funding to states to operate their own welfare programs within federal guidelines. This funding can help cover the costs of cash benefits, administrative expenses, and services primarily targeted to needy families; the amount does not vary according to the number of cash assistance recipients. States are also required to maintain a specified level of their own past welfare spending to receive all of their TANF funds. In fiscal year 2013, states spent a total of $31.6 billion in federal TANF and related state funds on cash assistance and other services for low-income families, according to the most recent available data from the U.S. Department of Health and Human Services (HHS). At the federal level, HHS is responsible for overseeing TANF programs. We were asked to provide information from our recent reports on TANF to inform a hearing on next steps for welfare reform.

My statement today—based primarily on reports we issued from 2010 to 2014— will address (1) states' use of TANF funds, (2) TANF's accountability framework, and (3) innovation and evaluation in the TANF program.[2] We used multiple methodologies to conduct the work for these reports. We reviewed and analyzed state TANF data reported to HHS

[1]Pub. L. No. 104-193, 110 Stat. 2105.

[2]This statement is also based on updates to TANF expenditures. We obtained these updates in April 2015 by consulting publicly available data. Reports are cited throughout and include : GAO, *Temporary Assistance for Needy Families: Implications of Recent Legislative and Economic Changes for State Programs and Work Participation Rates*, GAO-10-525 (Washington, D.C.: May 28, 2010); *Temporary Assistance for Needy Families: More Accountability Needed to Reflect Breadth of Block Grant Services*, GAO-13-33 (Washington, D.C.: Dec. 6, 2012); and *Temporary Assistance for Needy Families: Action Is Needed to Better Promote Employment-Focused Approaches*, GAO-15-31 (Washington, D.C.: Nov. 19, 2014).

from fiscal year 1997 through 2013; reviewed relevant federal laws, regulations, and guidance; interviewed HHS officials; reviewed research summaries and syntheses of rigorous research on promising approaches for engaging TANF recipients in employment and increasing their earnings; and collected information from TANF officials using different methods for different studies, including interviewing state TANF administrators and conducting visits in selected states. We assessed the data we received and concluded that the data were sufficiently reliable for the purposes of our reports. (More information on the scope and methodology of our work is contained within our published reports.)

We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

TANF Has Evolved from a Cash Assistance Program to a Flexible Funding Stream

Since PRWORA's passage, cash assistance caseloads have declined, freeing up TANF funds for states to use for other allowable purposes. In May 2013, we reported that when states implemented TANF during fiscal year 1997, an average of 3.9 million families a month were receiving cash assistance.[3] This number declined by over half within the first 5 years of TANF. Since that time, the average number of families receiving cash assistance each month has remained well below the initial number of 3.9 million families. An average of about 1.5 million families received cash assistance each month in 2014, according to the most recent available data from HHS.

In December 2012 we noted that several factors have affected the early decline and continued low levels of cash assistance since states implemented TANF.[4] The initial decline occurred during a strong economy in which federal support for work supports such as child care increased and TANF provided new program emphasis on work. Many

[3]GAO, *Temporary Assistance for Needy Families: Potential Options to Improve Performance and Oversight,* GAO-13-431 (Washington, D.C.: May 15, 2013).

[4]GAO-13-33.

former welfare recipients increased their income through employment, and employment rates among single parents increased. At the same time, some families worked more and had higher incomes, others had incomes that left them still eligible for cash assistance. However, many of these eligible families were not participating in the program. According to our estimates in a February 2010 report, about 87 percent of the caseload decline through 2005 can be explained by the decline in eligible families participating in the program, in part because of changes to state welfare programs.[5] These changes included mandatory work requirements; changes to application procedures; lower benefits; policies such as lifetime limits on assistance; diversion strategies such as providing one-time, non-recurring benefits instead of monthly cash assistance to families facing temporary hardships; and sanctions for non-compliance, according to a review of the research.

Our December 2012 report found that while the TANF block grant still serves as the nation's major cash assistance program for low-income families with children, states have also increasingly used it as a flexible funding stream for supporting a broad range of allowable services.[6] Under the TANF block grant, states have generally maintained access to their full TANF allocation each year. As the number of families receiving cash assistance declined, states shifted their TANF priorities to other forms of aid, or non-cash services, which can include any other services meeting TANF purposes. We found that states spent significant amounts of TANF funds on services such as child welfare or child care. We reported that nationwide, in fiscal year 1997, states spent about 23 percent of TANF funds on non-cash services. In contrast, states spent more than 66 percent of TANF funds for these purposes in fiscal year 2013, according to the most recent available data from HHS.[7]

TANF's funding structure has given states flexibility in making decisions regarding non-cash services. In December 2012, we also reported states

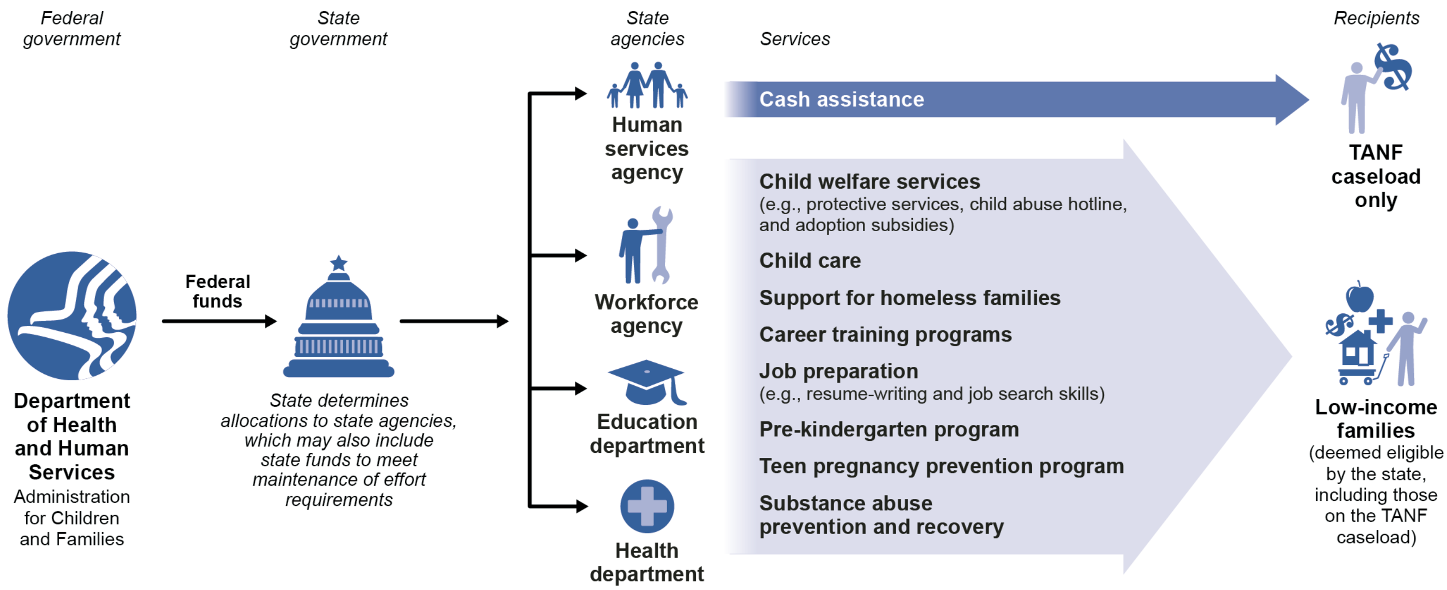
[5]GAO, *Temporary Assistance for Needy Families: Fewer Eligible Families Have Received Cash Assistance Since the 1990s, and the Recession's Impact on Caseloads Varies by State,* GAO-10-164 (Washington, D.C.: Feb. 23, 2010).

[6]GAO-13-33.

[7]These figures include both federal TANF funds and the state "maintenance of effort" funds that states are required to spend to receive their full federal TANF allocation. State maintenance of effort funds are discussed further below.

spent federal TANF funds on existing or new programs according to state legislative priorities and, as a result, funds are often allocated to and administered through multiple state and local agencies (see fig. 1). This is in contrast to TANF's predecessor program, AFDC, which was typically administered through state welfare agencies. Our work showed that the multiple state and local agencies that receive TANF funds may serve low-income families beyond the TANF cash assistance caseload.

Figure 1: Example of Possible Allocation of TANF Funds by a State



Source: GAO analysis based on examples of programs and services funded by Temporary Assistance for Needy Families (TANF) in various states. | GAO-15-572T

TANF's Accountability Framework Has Limitations

States Have Generally Met Work Participation Rates by Using Credits Allowed by Law

Because job preparation and employment are key goals of TANF,[8] one of the federal measures of state TANF programs' performance is the proportion of TANF cash assistance recipients engaged in allowable work activities.[9] Generally, states are held accountable for ensuring that at least 50 percent of all families receiving TANF cash assistance and considered work-eligible[10] participate in one or more of 12 specified work activities for an average of 30 hours per week.[11] Our work has shown that over the years, states have engaged about one third of families receiving TANF cash assistance in federally-defined work activities nationwide.[12] For example, according to HHS data, in fiscal year 2011—the most recent year for which data are available—states engaged 29.5 percent of work-eligible cash assistance families nationwide in work activities.

As we reported in May 2010, many states have been able to meet their work participation rate requirements because of various policy and funding options in federal law, and regulations that allow states to reduce their required rate.[13] Specifically, factors that influenced states' work participation rates included not only the number of families receiving TANF cash assistance who participated in work activities, but also

[8]42 U.S.C. § 601(a)(2).

[9]42 U.S.C. § 607.

[10]Work-eligible individuals are generally adult recipients of cash assistance or certain non-cash recipient parents of children receiving assistance who count toward the work participation rate.

[11]The work participation rate requirement is generally 90 percent for two-parent families.

[12]GAO-15-31. This was the case both before and after the Deficit Reduction Act of 2005 (DRA) that reauthorized TANF and included provisions generally expected to strengthen the work requirements.

[13]GAO-10-525.

1. decreases in the number of families receiving TANF cash assistance,
2. state spending on TANF-related services beyond what is required,[14]
3. state policies that allow working families to continue receiving TANF cash assistance, and
4. state policies that provide nonworking families cash assistance outside of the TANF program.[15]

Beyond families' participation in the 12 work activities, the factor that states have commonly relied on to help them meet their required work participation rates is the caseload reduction credit.[16] Specifically, decreases in the numbers of families receiving TANF cash assistance over a specified time period are accounted for in each state's caseload reduction credit, which then essentially lowers the states' required work participation rate from 50 percent.[17] For example, if a state's caseload decreases by 20 percent during the relevant time period, the state receives a caseload reduction credit equal to 20 percentage points, which results in the state work participation rate requirement being adjusted from 50 to 30 percent. While state caseload declines have generally been smaller after a 2006 law changed the base year for the comparison from fiscal year 1995 to fiscal year 2005, many states are still able to use caseload declines to help them lower their required work participation rates. In fiscal year 2011, the most recent year for which data are available, 49 of 50 states received a caseload reduction credit, including 22 that reduced their state's work participation rate requirement to 0 percent, according to HHS data.

In addition, states' spending of their own funds on TANF-related services has also been a factor in some states' credits. As stated previously, states are required to spend a certain amount of their funds every year—their maintenance of effort (MOE) funds—in order to receive all of their federal TANF block grants. However, if states spend in excess of the required amount ("excess MOE"), they are allowed to functionally

[14]To receive all of its annual federal TANF block grant, each state is generally required to spend 75 or 80 percent of what it was spending in fiscal year 1994 on welfare-related programs. 42 U.S.C. § 609(a)(7).

[15]For a more detailed discussion of these factors, see GAO-10-525.

[16]GAO-10-525.

[17]42 U.S.C. § 607(b)(3).

increase their caseload reduction credits.[18] We reported in May 2012 that MOE, including expenditures by third parties, is playing an expanded role in TANF programs due, in part, to some states' reliance on excess MOE to help meet their work participation rates.[19] We also noted that if states' MOE claims do not actually reflect maintaining or increasing service levels, low-income families and children may not be getting the assistance they need and federal funds may not be used in the most efficient manner.

In addition to the caseload reduction credits and excess MOE discussed above, we also reported in May 2010 that some states have made changes to their TANF programs that may affect which families are counted in their work participation rates, such as providing assistance to non-working families outside of the TANF program, as providing TANF assistance to such families would lower states' work participation rates. Given these various factors, we noted that the work participation rate does not allow for clear comparisons across state TANF programs or comparisons of individual state programs over time. Thus, we concluded that because of the various factors that affect the calculation of states' work participation rates, the rate's usefulness as a national performance measure for TANF is limited.[20]

Performance Information for Non-Cash Services is Incomplete

As stated above, we reported in December 2012 that the TANF block grant has evolved into a flexible funding stream that states use to support a broad range of allowable services. In that report, we also reported that the accountability framework in place in federal law and regulations had not kept pace with this evolution.[21] While funding for non-cash services

[18]45 C.F.R. § 261.43. When calculating the caseload reduction credit, federal regulations allow a state that spent in excess of its required amount in the year preceding the current one to include only the pro rata share of the total number of families receiving state-funded cash assistance required to meet the state's basic requirement.

[19]GAO, *Temporary Assistance for Needy Families: State Maintenance of Effort Requirements and Trends*, GAO-12-713T (Washington, D.C.: May 17, 2012). In addition to its own spending, a state may count toward its MOE certain in-kind or cash expenditures by third parties—such as nongovernmental organizations—as long as the expenditures meet other MOE requirements, including those related to eligible families and allowable activities. 45 C.F.R. § 263.2(e).

[20]GAO-10-525.

[21]GAO-13-33.

represents the majority of TANF spending, there were no reporting requirements mandating performance information specifically on families receiving non-cash services or their outcomes. There was also little information related to TANF's role in filling needs in other areas such as child welfare, even though this has become a more prominent spending area for TANF funds in many states. We reported that while states prepared state plans and expenditure reports that individually provided some information on non-cash services, when considered together, these did not provide a complete picture on state goals and strategies for uses of TANF funds.

Thus, in our December 2012 report, we recommended that HHS develop a detailed plan with specific timelines to assist it in monitoring its progress on revising its financial reporting categories for expenditures of federal TANF and state maintenance of effort funds. In response to our recommendation, HHS has taken some steps to improve expenditure reports from states. Specifically, HHS revised its reporting form and accounting methodology to collect more detailed and accurate expenditure data for the TANF program. The agency told us it also plans to provide technical assistance to states to help make the transition to this new reporting form and methodology easier.

Despite these efforts by HHS, without more information that encompasses the breadth of states' uses of TANF funds, Congress will not be able to fully assess how funds are being used, including who is receiving services or what is being achieved. We suggested that Congress should consider ways to improve reporting and performance information in our December 2012 report. Changes to the program could be considered as part of a full reauthorization of TANF in the future.

HHS Has Not Reported an Improper Payment Estimate for the TANF Program

In March 2015, we reported that HHS did not report an improper payment estimate for the TANF program in fiscal year 2014, even though the program is considered susceptible to the risk of improper payments.[22] In general, federal executive branch agencies are required to report improper payment estimates[23] that include payments that should not have been made or were made in the incorrect amount.[24] We concluded that the lack of an improper payment estimate for TANF and other risk-susceptible programs constrains the federal government's ability to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them. HHS cited a statutory provision as prohibiting it from requiring states to estimate improper payments for TANF[25] and stated that when legislation is considered to reauthorize TANF, the agency plans to encourage Congress to consider statutory modifications that would allow for a reliable error rate measurement. In the meantime, the agency reported that it has taken actions to assist states in reducing improper payments, such as working with states to analyze noncompliance findings from audits related to TANF and requiring more accurate information about the ways states used TANF block grants.

[22]GAO, *Improper Payments: Government-Wide Estimates and Use of Death Data to Help Prevent Payments to Deceased Individuals,* GAO-15-482T (Washington, D.C.: March 16, 2015).

[23]The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires federal executive branch agencies to (1) review all programs and activities, (2) identify those that may be susceptible to significant improper payments, (3) estimate the annual amount of improper payments for those programs and activities, (4) implement actions to reduce improper payments and set reduction targets, and (5) report on the results of addressing the foregoing requirements.

[24]An improper payment is defined by statute as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. Pub. L. No. 107-300, § 2(g)(2), as amended, codified at 31 U.S.C. § 3321 note. Office of Management and Budget guidance also instructs agencies to report as improper payments any payments for which insufficient or no documentation was found.

[25]See 42 U.S.C. § 617, which generally states that no employee of the federal government may regulate the conduct of the states under the laws governing TANF except to the extent expressly provided in such laws.

Several Factors Limit Incentives for Innovation and Evaluation in the TANF Program

In a November 2014 report, we concluded that while selected state and local programs are making use of some promising approaches for moving TANF recipients into employment and increasing their earnings, incentives are lacking for large numbers of state and local TANF agencies to adopt and test such approaches under the structure of the TANF program.[26] We pointed to some of the factors outlined above—TANF's funding structure and accountability measures—as factors that may limit incentives for states to experiment. Specifically, we found:

- States face competing priorities for use of TANF funds. TANF allows states to spend funds on a wide range of programs and services that are not necessarily related to welfare-to-work activities as long as these services support one of TANF's four statutory purposes.[27] Our December 2012 report found that states spent significant amounts of TANF funds on services such as child welfare or child care, and we noted that state use of federal TANF funds for these and other services can create tensions and trade-offs in state funding decisions.[28] In our November 2014 report, we found that any additional resources needed for implementing more costly promising approaches for TANF cash assistance clients may compete with other allowable uses of TANF funds. Officials we interviewed for that report whose three programs exclusively used TANF funds to implement elements of promising approaches said that their programs had been continuously funded for many years and that it would be difficult to find funding for the programs were they beginning at that time.

- The federal work participation rate requirements do not necessarily serve as an incentive for states to implement certain promising approaches, according to our interviews and prior work. Work participation rate requirements can play an important role in encouraging states to move TANF recipients into work. However, our November 2014 review indicated some ways that current policies may be discouraging states from engaging some TANF recipients with

[26] GAO-15-31.

[27] 42 U.S.C. §§ 601(a), 604(a). The four purposes for the TANF block grant are: (1) provide assistance to needy families so that children may be cared for in their own homes or homes of relatives; (2) end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (3) prevent and reduce out-of-wedlock pregnancies; and (4) encourage two-parent families. .

[28] GAO-13-33.

complex needs and from providing an appropriate mix of activities. Some experts and HHS officials we interviewed suggested that limits on the amount of time that certain job readiness and training activities may be counted toward a state's work participation rate[29] may discourage states from pursuing approaches that involve longer-term treatment or education.[30] In addition, our November 2014 report included factors discussed above, such as the caseload reduction credit, that have allowed states to reduce the percentage of families they needed to engage in work to meet their work participation rate requirements. We found that states may have less incentive to use promising approaches to engage hard-to-employ individuals in work activities as they can meet their work participation rate requirements without them.

Additionally, we reported in November 2014 that state and local TANF agencies have little incentive to test the effectiveness of new approaches.[31] States are not required under federal TANF law to conduct impact evaluations of their TANF programs, although these evaluations can provide useful information on program effectiveness. We have previously found that although HHS has a strong tradition of leading and supporting rigorous welfare research, there are fewer incentives for states to evaluate their programs under TANF than existed under the previous welfare program with its evaluation and funding provisions.[32] Indeed, although HHS maintains an active research agenda, TANF agency participation in some recent and ongoing HHS evaluations has been limited. An HHS official we interviewed reported that engaging TANF programs in evaluations of promising approaches is difficult because of the administrative burden on the state or locality. Officials added that HHS has no authority to require state agency participation in research and evaluation and no dedicated funding to provide states or localities incentives to participate. We concluded that limited participation by TANF agencies in HHS evaluations may slow the development and adoption of new promising approaches, leaving TANF without a continuous improvement process.

[29]See 42 U.S.C. § 607(c).

[30]GAO-15-31.

[31]GAO-15-31.

[32]GAO, *Welfare Reform: More Information Needed to Assess Promising Strategies to Increase Parents' Incomes,* GAO-06-108 (Washington, D.C.: Dec. 2, 2005).

Consequently, to encourage broader adoption and evaluation of promising approaches, we recommended that HHS, in consultation with Congress, identify potential changes that would address the lack of incentives for states and localities to adopt promising approaches and then develop and submit a legislative proposal outlining those changes. HHS agreed with our recommendation and noted that in the Administration's Fiscal Year 2015 Budget Request, it stated, "when Congress takes up reauthorization, the Administration will be prepared to work with lawmakers to strengthen the program's effectiveness in accomplishing its goals. This effort should include using performance indicators to drive program improvement and ensuring that states have the flexibility to engage recipients in the most effective activities to promote success in the workforce, including families with serious barriers to employment." HHS made this same statement in its Fiscal Year 2016 Budget Request. We maintain that HHS should develop more concrete proposals to address the lack of incentives within the TANF program itself, and noted that the agency need not wait for Congress to take up reauthorization to do so.

Chairman Boustany, Ranking Member Doggett, and Members of the Subcommittee, this concludes my statement for the record.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this statement, please contact Kay E. Brown, Director, Education, Workforce, and Income Security, at 202-512-7215 or brownke@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this statement include Alexander Galuten, Gale Harris, Kristen Jones, Michael Pahr, and Walter Vance.