

STATE TANF SPENDING AND ITS IMPACT ON WORK REQUIREMENTS

HEARING BEFORE THE SUBCOMMITTEE ON HUMAN RESOURCES OF THE COMMITTEE ON WAYS AND MEANS U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED TWELFTH CONGRESS SECOND SESSION

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MAY 17, 2012
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**STATE TANF SPENDING AND ITS IMPACT ON
WORK REQUIREMENTS**

THURSDAY, MAY 17, 2012

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, DC.

The subcommittee met, pursuant to call, at 2:55 p.m., in Room 1100, Longworth House Office Building, the Honorable Geoff Davis [Chairman of the Subcommittee] presiding.
[The advisory of the hearing follows:]

HEARING ADVISORY

Davis Announces Hearing on State TANF Spending and Its Impact on Work Requirements

Thursday, May 17, 2012

Congressman Geoff Davis (R-KY), Chairman of the Subcommittee on Human Resources of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing to review State spending requirements in the Temporary Assistance for Needy Families (TANF) program and their interaction with TANF work requirements. **The hearing will take place on Thursday, May 17, 2012 in 1100 Longworth House Office Building, beginning at 2:00 P.M.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. Witnesses will include a representative from the Government Accountability Office (GAO) as well as other public and private sector experts on State TANF spending policy and practice. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The Temporary Assistance for Needy Families (TANF) program is designed to end the dependence of needy families on government benefits by promoting work, marriage, and personal responsibility. Unlike its predecessor, Aid to Families with Dependent Children, which was primarily a cash welfare program for poor families with children, the 1996 welfare reform law created TANF to fund a variety of services to help low-income parents get jobs and become self-sufficient.

States are required to engage 50 percent of adults in TANF families in work activities such as employment, on-the-job training, job search, and vocational education. In addition, States are required to spend a certain amount of State money (based on past State spending on low-income programs) to receive full Federal TANF block grant funds, called the State "maintenance of effort" or MOE requirement. However, recent reports indicate a rising number of States appear to be counting other State program spending and even non-State third party spending as TANF MOE spending. For example, a number of States now count volunteer hours as TANF MOE by multiplying volunteer hours by an estimated wage rate and then reporting this as "spending" in the TANF program. This evolution has also resulted in some States reporting significant "excess MOE" spending, which under a 1999 regulation allows States to reduce the share of welfare recipients expected to work in exchange for TANF benefits.

According to a September 2011 GAO report, in fiscal year 2009, 32 states claimed at least some "excess MOE credits." Of those 32 states, 17 states would have failed to meet their work participation requirements without these credits, resulting in the loss of Federal TANF funds.

The American Recovery and Reinvestment Act of 2009 (ARRA) created a new one-time \$5 billion funding stream for States called the TANF Emergency Fund, available in FYs 2010 and 2011. Under the Emergency Fund, States received 80 percent reimbursement for their increased spending on cash assistance, subsidized employment, and one-time benefits provided to needy families. The availability of this new funding may have been one of the factors that spurred States to identify and report further increases in spending, a number of which relied on the counting of third-party expenditures as State MOE spending to qualify for this funding. Additional factors may have been States' desire to increase MOE spending in order to receive funding from the TANF contingency fund and to respond to changes in the Deficit Reduction Act.

In announcing the hearing, Chairman Davis said, **“Welfare reform in the 1990s established a new partnership between States and the Federal Government to help families move from welfare to work. In exchange for flexibility in operating the program, States agreed to meet Federal requirements to engage families in work activities and to continue investing State dollars for this purpose. However, recent reports suggest that these two key principles of reform may not be working as intended. The hearing will review this issue to ensure the Federal-State partnership continues to work toward helping families become self-sufficient.”**

FOCUS OF THE HEARING:

The hearing will focus on TANF State MOE spending requirements and their interaction with TANF work requirements.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select “Hearings.” Select the hearing for which you would like to submit, and click on the link entitled, “Click here to provide a submission for the record.” Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Thursday, May 31, 2012**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721 or (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word format and **MUST NOT** exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit materials not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the World Wide Web at <http://www.waysandmeans.house.gov/>.

Chairman DAVIS. Good afternoon. Before we get started, I want to thank all of our witnesses and our guests for your patience. The voting schedule is not always coordinated with the Human Resources Subcommittee, and we had a little bit of a delay in the last vote series, so thank you for your flexibility. Or, as we used to say in the Army, parroting that Marine motto, Semper Gumby.

Our hearing today reviews a key provision of welfare reform: State spending requirements and their impact on work requirements. As part of welfare reform in 1996, States were given a Federal block grant for the Temporary Assistance for Needy Families, or TANF, program, which maintains Federal spending on welfare—or maintained record Federal spending on welfare. At the same time, States were allowed to reduce State spending to as little as 75 percent of prior levels under maintenance of effort, or MOE, requirements. This requirement was meant to ensure continued Federal-State partnership in helping families move from welfare to work. But now there is cause for concern that in some States, this financial partnership is becoming a more one-sided proposition, with States no longer matching Federal spending reliably as they once did.

Ironically, recent official data from the Department of Health and Human Services, including fiscal year 2011 data published yesterday, appears to suggest States have been increasing their own TANF spending rapidly. As this graph shows on the monitors, since 2005, States have reported spending almost one-third more on TANF, including during and after the Great Recession; however, what appears to be behind this growth is not actual increases in State TANF spending, but rather increased State reporting of TANF spending, including spending by third parties that States are now claiming as their own.

Why would States choose to start reporting more TANF spending? There are several reasons. First, under 1999 regulations, States can reduce the share of adults they must engage in work if they spend more than required. These, quote, “excess MOE credits,” closed quote, have attracted greater State interests since work requirements were strengthened in the Deficit Reduction Act signed into law in early 2006.

The most recent data suggests 16 States used excess MOE credits to satisfy work requirements, effectively reducing the share of adults on TANF that are expected to work or train in order to maintain TANF benefits.

Second, other sources of Federal TANF spending, the ongoing contingency fund and the one-time welfare emergency fund created in the 2009 stimulus law, require increased levels of State spending. So to get more Federal funds, States had to spend more State dollars, or at least report that they were doing so.

This slide, taken from a presentation given to State TANF Directors at a December 2006 conference, illustrates how the hunt for MOE has been on, and it appears to be behind some reported increases in State TANF spending.

Many States have scoured their budgets to find other current spending programs, such as for pre-K, child care, and after-school programs, that they could report as TANF spending. This went further to, if you will, the salesman working the plan to gain max-

imum advantage within the context, if outside the spirit, of the regulation law. Others began counting third-party spending such as assistance offered by food banks and Boys and Girls Clubs as TANF spending. One State even apparently found a way to count the value of volunteer hours by Girl Scout troop leaders as State TANF spending.

I want to be clear that this is not illegal, but that doesn't make it right. States' ability to claim such a broad range of items as TANF spending, as well as the availability of excess MOE credits when they do so, have eroded key features of the Federal-State partnership in place since 1996.

Today's hearing will review these issues and consider whether the law should be adjusted to ensure TANF continues to meet its goal helping low-income parents find and keep jobs.

We have an excellent panel of witnesses joining us today to review these issues, which are colleagues on both sides of the aisle. I look forward to working with all of our colleagues and invited guests on this as we consider TANF reauthorization later this year.

Chairman DAVIS. With that, I would like to yield to my friend and ranking member, Mr. Doggett from Texas, for 5 minutes.

Mr. DOGGETT. Thank you, Mr. Chairman.

As one who supported the 1996 welfare reform legislation, I welcome this opportunity to examine how well the States have been fulfilling their obligations under that legislation. Having seen more than a few examples of mismanagement of Federal tax dollars by State officials in my home State of Texas, I fully appreciate the value and the necessity of strong oversight.

But we also need to focus on how decisions made here in Washington are affecting all of the programs that vulnerable Americans depend upon, whether we have a safety net that is so frayed that it is all hole and no net.

TANF is supposed to be a partnership between the Federal Government and the States. Unfortunately, both ends of that partnership seem to be fraying and, along with it, the protection that millions of poor families rely upon.

Last year, the House Republicans targeted the 17 mostly high-poverty States for cuts in TANF by refusing to extend, without any justification I ever heard, the so-called Supplemental Grant Program. That includes my home State of Texas, which already had one of the lowest amounts of Federal TANF funding in the entire country relative to the number of poor children. The end of these grants amount to a loss of about \$53 million every year. According to the Center for Public Policy Priorities in East Austin, this has meant fewer funds were available in Texas for preventing high school dropouts and child abuse and neglect.

All of the Texas miracle stuff that we have heard so much about has done very little to those who are caught in poverty. Only last week House Republicans enacted from—approved here in the House a highly partisan bill that would completely eliminate the Social Services Block Grant. That is the loss of another \$137 million to assist low-income families and protect vulnerable children in Texas, as well as senior citizens.

Today, we are likely to hear that some States also may be withdrawing their support. I am sure Texas will withdraw as much as

it possibly can rather than continue to spend State funds to meet TANF maintenance-of-effort requirements.

Some States do seem to be increasingly counting spending that is done from nonprofit insurable organizations. One report indicates that nearly half of the funds that one State, Georgia, declares as meeting its spending requirement actually comes from non-State private sources.

While we should certainly encourage the tremendous work of charitable organizations across the country, allowing States to reduce their funding for services for needy families by counting existing spending by hard-pressed nonprofits threatens to reduce the total amount of support for our poorest children.

As the chairman just pointed out, changes in how the States count spending also impacts work participation rates that the States are required to comply with under TANF. I firmly believe we should expect States to diligently work with folks to help them find meaningful employment. To ensure this outcome, we need standards that meet our bottom-line goal of helping jobless parents find real work so they can support themselves and support their children.

We will likely hear some concerns today that the current work participation standard is too focused on how many TANF recipients are in certain activities, rather than on how many people are actually moving into real jobs.

The current performance measure does not account for how many jobless parents a State is really helping. For example, a State that has 104 unemployed mothers, but only provides assistance to 2 of them, that State would meet the current Federal work participation if just 1 person was in a work activity. If that scenario sounds rather extreme and hypothetical, consider the fact that my State of Texas provides TANF assistance to only about 5 out of every 100 children that are living in poverty today.

Mr. Chairman, if the Federal Government and the States reduce their commitment to our poorest citizens once again, the path out of poverty will become even harder and longer for millions of our youngest Americans. I stand ready to work with you to ensure that both the Congress and the policymakers in the State meet their obligations to help these struggling families, and I look forward to hearing from all of our witnesses today, and thank each one of them for participating.

Thank you.

Chairman DAVIS. Thank you very much, Mr. Doggett.

I would like to remind our witness to limit their oral testimony to 5 minutes; however, without objection, all the written testimony will be made part of the permanent record.

On our panel this afternoon, we will be hearing from five distinguished individuals: Ms. Kay Brown, Director of Education, Workforce, and Income Security with the U.S. Government Accountability Office; Mr. Grant Collins, Senior Vice President for Workforce Services at ResCare; Ms. Carol Cartledge, Director of Economic Assistance Policy Division, North Dakota Department of Human Services. Mr. Peter Palermino, TANF Administrator, Connecticut Department of Social Services; and Dr. LaDonna Pavetti,

Vice President for Family Income Support Policy with the Center on Budget and Policy Priorities.

Ms. Brown, please proceed with your testimony.

STATEMENT OF KAY E. BROWN, DIRECTOR, EDUCATION, WORKFORCE, AND INCOME SECURITY, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. BROWN. Chairman Davis, Ranking Member Doggett and Members of the Subcommittee, I am pleased to be here today to discuss our work on State spending requirements for the TANF program. My remarks are based on several previously issued GAO reports and will focus on two points: the key features of State MOE requirements and changes in the role of State MOE spending over time.

First on the MOE requirements. When Congress designed the TANF program, it coupled the \$16.5 billion block grant with what was viewed as strong MOE requirements. This was to ensure that States remained solid fiscal partners. States continued to be expected to spend a minimum of 75 to 80 percent of the amount they spent on welfare-related programs before TANF was created. Over the past 15 years, this has amounted to about 40 percent of the \$406 billion in total program spending.

MOE provisions help ensure that State spending supports Federal goals, and that States are limited in the extent to which they can replace State funds with Federal funds. To count towards MOE, State funds generally must be spent on families that meet financial eligibility criteria, be used for activities that support one of the four broad TANF goals, and be above the prereform spending levels if spent outside traditional welfare programs.

In addition to its own spending, though, a State can count towards its MOE certain in-kind or cash expenditures by third parties, such as nonprofit organizations that support program goal and serve eligible families.

Turning to changes in the role of MOE spending, during 2005, State MOE levels remained stable, hovering around the required minimum. When States experienced a significant drop in caseloads following reform, the MOE provisions facilitated a shift away from cash assistance to a broader range of services, such as child care, transportation, and child welfare services, as long as these services supported TANF goals.

Then in 2006, the MOE spending levels began to increase until they exceeded the minimum requirements by about \$4 billion in fiscal years 2009 and 2010. These increases were likely the result of several factors. For example, additional Federal funds were made available during the recent recession; however, to access these funds, States had to increase their MOE spending.

States also have increased the use of MOE to help meet their required work participation rate. States' performance is measured in large part by their success in engaging at least 50 percent of work-related families in allowable activities. However, States can turn to certain options instead. For example, when States spend in excess of the required MOE amount, this spending can be used to help lower their required participation rates.

When Congress tightened these requirements in 2005, some States found it difficult to meet them and began to claim this excess MOE, an allowable option that had rarely been used before. For fiscal year 2009, 32 of the 45 States that met their rate claimed excess MOE spending, and 16 would not have met their rates without claiming MOE expenditures.

In conclusion, MOE is now playing an expanded role in TANF programs. Some States may be making programmatic decisions and budgetary decisions to claim excess MOEs in order to avoid penalties for not meeting their work participation requirements. It is important to ensure that MOE spending reflects the commitment to serve low-income families and supports the Federal program goals.

While we, GAO, have not reviewed HHS's existing efforts to monitor MOE, and we do not know how effective they are, we know that MOE provisions can be difficult to administer and oversee. Yet with appropriate attention to design, implementation and monitoring, MOE provisions can be a useful tool to help strike a balance between heightened State flexibility and ensuring a focus on certain national objectives.

This concludes my prepared statement. I am happy to answer any questions you may have.

[The prepared statement of Ms. Brown follows:]

United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on Human
Resources, Committee on Ways and
Means, House of Representatives

For Release on Delivery
Expected at 2:00 p.m. EDT
Thursday, May 17, 2012

**TEMPORARY ASSISTANCE
FOR NEEDY FAMILIES**

**State Maintenance of Effort
Requirements and Trends**

Statement of Kay E. Brown, Director
Education, Workforce, and Income Security





Highlights of GAO-12-713T, a testimony before the Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives

May 17, 2012

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

State Maintenance of Effort Requirements and Trends

Why GAO Did This Study

The \$16.5 billion TANF block grant, created in 1996, is one of the key federal funding streams targeted to assist low-income families. While the block grant provides states with a fixed amount of federal dollars annually, it also includes state MOE requirements, which require states to maintain a significant portion of their own historic financial commitment to welfare-related programs. Over the last 15 years, this federal-state partnership has seen multiple program and fiscal changes, including a dramatic drop in the number of families receiving monthly cash assistance, as well as two economic recessions. To provide information for its potential extension or reauthorization, this testimony draws primarily on previous GAO work to focus on (1) the key features of the state MOE requirements and (2) how the role of state MOE spending has changed over time. To address these issues, GAO relied on its prior work on TANF block grant and state MOE spending issued between 2001 and 2010, including the May 2010 report examining how state MOE spending affects state TANF programs' work participation rates. To develop the spending-related findings in this body of work, GAO reviewed relevant federal laws, regulations, and guidance, state TANF data reported to the U.S. Department of Health and Human Services (HHS), and related financial data from selected states. GAO also interviewed relevant officials from HHS and selected states.

View GAO-12-713T. For more information, contact Kay E. Brown at (202) 512-7215 or brownke@gao.gov.

What GAO Found

The Temporary Assistance for Needy Families (TANF) block grant's maintenance of effort (MOE) provisions include specified state spending levels and general requirements on the use of funds. For example, these provisions generally require that each state spend at least 80 percent (75 percent if the state meets certain performance standards) of the amount it spent on welfare and related programs in fiscal year 1994, before TANF was created. If a state does not meet its MOE requirements in any fiscal year, the federal government will reduce dollar-for-dollar the state's federal TANF grant in the following year. In order to count state spending as MOE, funds must be spent on benefits and services to families with children that have incomes and resources below certain state-defined limits. Such benefits and services must generally further one of TANF's purposes, which broadly focus on providing financial assistance to needy families; promoting job preparation, work, and marriage; reducing out-of-wedlock births; and encouraging the formation of two-parent families. Within these broad goals, states have significant flexibility to design programs and spend their funds to meet families' needs.

Total MOE spending reported by states remained relatively stable around the required minimum spending level of \$11 billion through fiscal year 2005, and then increased to about \$4 billion higher than this minimum in fiscal years 2009 and 2010. Several reasons likely accounted for these increases, including states' reliance on MOE spending to help them meet TANF work participation rates. Work participation rates identify the proportion of families receiving monthly cash assistance that participate in allowable work activities for a specified number of hours each week. Federal law generally requires that at least 50 percent of families meet the work requirements; however, most states have engaged less than 50 percent of families in required activities in each year since TANF was created, according to HHS data. Various policy and funding options in federal law and regulations, including credit for state MOE expenditures that exceed required spending levels, have allowed most states to meet the rate requirements even with smaller percentages of families participating. States generally began relying on MOE spending to get credit toward meeting TANF work participation rates in fiscal year 2007 because of statutory changes to the rate requirements enacted in 2006. For example, for fiscal year 2009, the most recent data available, 16 of the 45 states that met the TANF work participation rate would not have done so without the credit they received for excess state MOE spending.

The expanded role of MOE in state TANF programs highlights the importance of having reasonable assurance that MOE spending reflects the intended commitment to low-income families and efficient use of federal funds. GAO's previous work makes clear that MOE provisions are often difficult to administer and oversee, but can be important tools for helping ensure that federal spending achieves its intended effect. This work also points out that with appropriate attention to design, implementation, and monitoring issues, such provisions are one way to help strike a balance between the potentially conflicting objectives of increasing state and local flexibility while attaining certain national objectives.

Chairman Davis, Ranking Member Doggett, and Members of the Subcommittee:

I am pleased to have the opportunity to participate in today's discussion of state spending related to the Temporary Assistance for Needy Families (TANF) block grant, which is one of the key federal funding streams targeted to assist low-income families. State spending represents about 40 percent of the \$406 billion in total TANF and related state spending for the past 15 years since TANF was created in 1996. As you know, the federal government significantly changed federal welfare policy in 1996 when it created TANF, a \$16.5 billion annual block grant provided to states to operate their own welfare programs within federal guidelines. While the block grant provides states with a fixed amount of federal dollars annually, it also includes state maintenance-of-effort (MOE) requirements, which require states to maintain a significant portion of their historic financial commitment to welfare-related programs. At the same time, TANF gives states the authority and flexibility to make key decisions about how to design programs and allocate federal and state funds to assist low-income families. Over the last 15 years, this funding partnership has undergone multiple program and fiscal changes, including a dramatic drop in the number of families receiving monthly cash assistance benefits, as well as two economic recessions.

My remarks today are based primarily on our past work on state MOE spending, including our May 2010 report examining how state MOE spending affects state TANF programs' work participation rates.¹ I will focus on (1) the key features of the state MOE requirements and (2) how the role of state MOE spending has changed over time. To develop our MOE-related findings for our May 2010 report on work participation, we conducted our work from August 2009 to May 2010.² In addition, in July 2011, we obtained more recent data on MOE and work participation from the US Department of Health and Human Services (HHS), and we reported on those data in our September 2011 testimony before this subcommittee.³ For today's statement we also drew on our prior reports

¹GAO, *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).

²For more information on our methodology, see appendix I of GAO-10-525.

³GAO, *Temporary Assistance for Needy Families: Update on Families Served and Work Participation*, GAO-11-880T (Washington, D.C.: Sept. 8, 2011).

on TANF block grant spending issued between 2001 and 2006 as well as earlier reports on grant design and accountability generally. To develop findings for all of these reports, we used a variety of approaches, including interviewing officials from the HHS and selected states and reviewing state TANF data reported to HHS; related financial data from selected states; relevant federal laws, regulations, and guidance; and literature reviews. For more details on our methodologies, see the related reports cited throughout. We determined that these data were sufficiently reliable for the purposes of this testimony. We conducted our work in accordance with generally accepted government auditing standards. Those standards required 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.

Background

The TANF block grant was created by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA)⁴ and was designed to give states the flexibility to provide both traditional welfare cash assistance benefits as well as a variety of other benefits and services to meet the needs of low-income families and children. TANF has four broad goals: (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. Within these goals, states have responsibility for designing, implementing, and administering their welfare programs to comply with federal guidelines, as defined by federal law and HHS.

In creating TANF, the federal government significantly changed its role in financing welfare programs in states. PRWORA ended low-income families' entitlement to cash assistance by replacing the Aid to Families with Dependent Children (AFDC) program— for which the federal grant amount was based on the amount of state spending—with the TANF block grant, a \$16.5 billion per year fixed federal funding stream to states. PRWORA coupled the block grant with an MOE provision, which requires

⁴Pub. L. No. 104-193, § 103(a), 110 Stat. 2105, 2112.

states to maintain a significant portion of their own historic financial commitment to their welfare programs as a condition of receiving their full federal TANF allotments. Importantly, with the fixed federal funding stream, states assume greater fiscal risks in the event of a recession or increased program costs. However, in acknowledgment of these risks, PRWORA also created a TANF Contingency Fund that states could access in times of economic distress.⁵ Similarly, during the recent economic recession, the federal government created a \$5 billion Emergency Contingency Fund for state TANF programs through the American Recovery and Reinvestment Act of 2009, available in fiscal years 2009 and 2010.⁶

The most recent data available, for fiscal year 2010, show that the federal government and states spent almost \$36 billion⁷ on benefits and services meeting one or more of the TANF goals. In that year, states provided, on average, about 1.9 million families per month with ongoing cash assistance,⁸ including about 800,000 families in which the children alone received benefits.⁹ This represents a significant drop from the more than 3 million families receiving cash assistance when states implemented TANF in fiscal year 1997. In addition, states provide a broad range of services to other families in need not included in the welfare caseload data. The total number of families assisted is not known, as we have

⁵Pub. L. No. 104-193, § 103(a)(1), 110 Stat. 2105, 2122.

⁶Pub. L. No. 111-5, § 2101(a)(1), 123 Stat. 115, 446.

⁷Total federal and state TANF expenditures in fiscal year 2010 equaled \$35.8 billion, of which about 58 percent was federal funds and 42 percent was state MOE funds. Federal funds spent in fiscal year 2010 included those provided through the TANF block grant, supplemental grants, the Contingency Fund, and the Emergency Contingency Fund. Supplemental grants refer to a capped amount of federal funds that have been available to several states each year if they meet certain criteria related to increased need in the state.

⁸The most recent data from HHS for fiscal year 2011 shows an average monthly caseload of 1.92 million families, which fell slightly to 1.89 million families in the first quarter of fiscal year 2012.

⁹These cases are referred to as child-only cases, in which a parent or non-parent caregiver is not receiving TANF cash assistance for a variety of reasons. For more information, see GAO, *TANF and Child Welfare Programs: Increased Data Sharing Could Improve Access to Benefits and Services*, GAO-12-2 (Washington, D.C.: Oct. 7, 2011).

noted in our previous work.¹⁰ These allowable services under TANF can generally include any spending reasonably deemed to meet one or more of the four broad goals of TANF, and can include one-time cash payments, work and training activities, work supports such as child care and transportation, efforts to promote two-parent families or marriage, and child welfare services, among others. When TANF began, cash assistance represented the largest spending category (73 percent in fiscal year 1997). In contrast, cash assistance spending in fiscal year 2010 accounted for 30 percent of total TANF spending.

Reducing dependence on government benefits through job preparation and employment is a key goal of TANF, and PRWORA identified the work participation rate as one of the federal measures of state TANF programs' performance. This rate is generally calculated as the proportion of work-eligible TANF cash assistance recipients engaged in allowable work activities.¹¹ As a result, HHS is responsible for holding states accountable for ensuring that generally at least 50 percent of all families receiving TANF cash assistance benefits participate in one or more of the allowable work activities for a specified number of hours each week.¹² TANF provisions include other features to help emphasize the importance of work and the temporary nature of assistance, such as 60-month time limits on the receipt of aid for many families.

¹⁰GAO, *Welfare Reform: States Provide TANF-Funded Services to Many Low-Income Families Who Do Not Receive Cash Assistance*, GAO-02-564 (Washington, D.C.: Apr. 5, 2002).

¹¹42 U.S.C. § 607. The 12 work activities are: unsubsidized employment, subsidized private sector employment, subsidized public sector employment, work experience (if sufficient private sector employment is not available), on-the-job training, job search and job readiness assistance, community service programs, vocational educational training, job skills training directly related to employment, education directly related to employment (for recipients who have not received a high school diploma or certificate of high school equivalency), satisfactory attendance at secondary school or in a course of study leading to a certificate of general equivalence (for recipients who have not completed secondary school or received such a certificate), and the provision of child care services to an individual who is participating in a community service program. 42 U.S.C. § 607(d).

¹²Some families receiving cash assistance benefits are excluded from work requirements, with the most significant group being certain child-only cases.

MOE Provisions Include Specified State Spending Levels with Some Flexibility

The preamble to the final rule issued by HHS in 1999 noted that the MOE cost-sharing arrangement reflected Congress' recognition that state financial participation is essential for the success of welfare reform.¹³ The preamble to this final rule also noted that Congress wanted states to be active partners in the welfare reform process.¹⁴ These requirements are an important element of TANF—if a state fails to meet its MOE requirement for any fiscal year, HHS is required by law to reduce dollar-for-dollar the amount of a state's basic TANF grant for the following fiscal year.¹⁵

Maintenance of effort requirements are sometimes found in federal grant programs to prevent states from substituting federal for state dollars. Such provisions can help ensure that federal block grant dollars are used for the broad program area intended by the Congress, in this case the four broad TANF purposes. Without such provisions, federal funds ostensibly provided for these broad areas could, in effect, be transformed into general fiscal relief for the states, as states could use some or all of their federal block grants to replace their own money invested in the program area. To the extent that this occurs, the ultimate impact of these federal dollars would be to increase state spending in other programs, reduce taxes, or some combination of both. A maintenance of effort requirement brings its own challenges—it can be complex to monitor and may lock states into meeting minimum spending levels that may no longer be warranted given changing conditions.¹⁶

Under TANF, while states have significant flexibility in how to spend their own money, several requirements guide the use of these state funds, including how much, for whom, and for what.

How Much?

Each state's amount of MOE is generally based on fiscal year 1994 state spending for a specific set of programs.¹⁷ The 1996 welfare reform law

¹³64 Fed. Reg. 17,720, 17,821.

¹⁴*Id.* at 17,816.

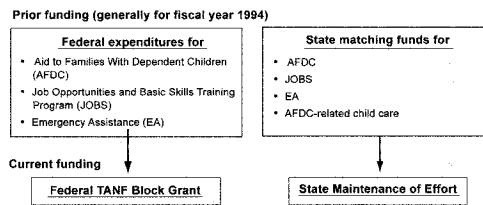
¹⁵See 42 U.S.C. § 609(a)(7).

¹⁶For more information, see GAO, *Block Grants: Issues in Designing Accountability Provisions*. GAO/AIMD-95-226 (Washington, D.C.: September 1, 1995).

¹⁷42 U.S.C. § 609(a)(7).

consolidated and replaced programs under which the amount of federal spending was often based on state spending levels, and considerable state dollars contributed to these pre-TANF programs. Figure 1 shows the federal programs with related state spending that were included in establishing the fixed annual amount of the TANF block grant and state maintenance-of-effort level for each state.

Figure 1: Federal TANF Block Grant and State MOE Funding Levels Are Determined by Prior Year Expenditures for Several Terminated Programs



Source: GAO analysis of relevant federal laws.

Note: The previous AFDC program provided ongoing monthly cash assistance, JOBS provided states funds for welfare-to-work activities for AFDC recipients; and EA provided states funds to help eligible families with emergency needs. Prior federal funding was also available for AFDC-related child care; federal funding targeted to child care for low-income families is now funded through the Child Care and Development Fund.

The required percentages of these previous state spending levels vary under different conditions:

- 80 percent—To receive its federal TANF funds, a state must generally spend state funds in an amount equal to at least 80 percent of the amount it spent on welfare and related programs in fiscal year 1994.¹⁸
- 75 percent—If a state meets its minimum work participation rate requirements, then it generally need expend only 75 percent of the amount it spent in fiscal year 1994.¹⁹

¹⁸42 U.S.C. § 609(a)(7).

¹⁹Id.

- 100 percent—To receive contingency funds, a state must expend 100 percent of that fiscal year 1994 amount.²⁰

In addition to its own spending, a state may count toward its MOE certain in-kind or cash expenditures by third parties, such as nonprofit organizations, as long as the expenditures meet other MOE requirements, including those related to eligible families and allowable activities, discussed below.²¹ In addition, an agreement must exist between the state and the third party allowing the state to count the expenditures toward its MOE.

For Whom?

Generally, to count toward a state's MOE, expenditures must be for "eligible families," that is, families who:²²

- include a child living with his or her custodial parent or other adult caretaker relative (or a pregnant woman); and
- meet the financial criteria, such as income and resources limits, established by a state for the particular service or assistance as described in its TANF plan. Each state is required to prepare and provide a biennial TANF plan describing its programs to HHS.

For What?

Generally, expenditures for eligible families in these areas may count toward MOE:²³

- cash assistance;
- child care assistance;
- educational activities to increase self-sufficiency, job training and work (except for activities or services that a state makes generally available to its residents without cost and without regard to their income);

²⁰See 45 C.F.R. § 264.72.

²¹45 C.F.R. § 263.2(e).

²²Changes made by the Deficit Reduction Act of 2005 allowed states to count as MOE total expenditures related to TANF purposes three and four—the prevention and reduction of out-of-wedlock pregnancies and the formation and maintenance of two-parent families. These expenditures did not need to be directed solely at "eligible families." See 71 Fed. Reg. 37,454, 37,470.

²³45 C.F.R. §§ 263.2, 263.4.

- certain administrative costs; and
- other activities considered in keeping with a TANF purpose.

These expenditures may be made on behalf of families in a state's cash welfare program or for other eligible families through other state programs or initiatives.²⁴ However, state-funded benefits, services, and activities that were not a part of the pre-reform programs generally may count as MOE only to the extent that they exceed the fiscal year 1995 level of expenditures in the programs.²⁵ This is referred to as the "new spending" test. For example, if a state has currently spent its own funds on eligible families on an allowable activity, such as a refundable earned income tax credit, it may count toward its MOE only the current amount that exceeds that program's expenditures in fiscal year 1995.

MOE Spending Has Increased Significantly, But the Extent to Which It Represents Increased Service Levels Is Unclear

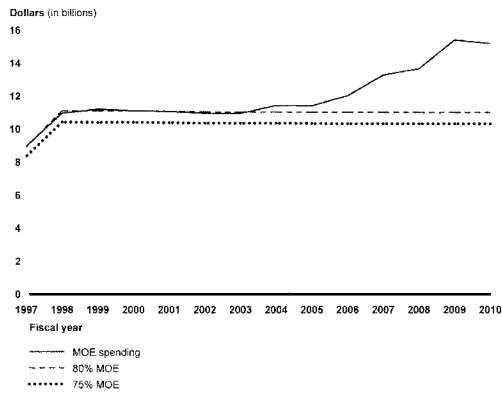
MOE Levels Have Increased in Recent Years

State MOE levels remained stable for many years and then increased more recently for several reasons. As shown in figure 2, until fiscal year 2006, MOE levels remained relatively stable, hovering around the 80 percent required minimum or the reduced rate of 75 percent for states that met their work participation rates. From fiscal years 2006 through 2009, they increased each year.

²⁴45 C.F.R. § 263.2.

²⁵45 C.F.R. § 263.5.

Figure 2: State MOE Expenditures, Fiscal Years 1997 through 2010



In a 2001 report, we examined issues related to the new federal-state fiscal partnership under TANF, noting several issues related to TANF and MOE spending rules.²⁶ We found at that time that the MOE requirement, in many cases, limited the extent to which states used their federal funds to replace state funds—an intended role for MOE.²⁷ It also led to a situation in which many state officials said they were spending more than

²⁶GAO, *Welfare Reform: Challenges in Maintaining a Federal-State Fiscal Partnership*, GAO-01-828 (Washington, D.C.: Aug. 10, 2001). In this report, we conducted an in-depth analysis of 10 states.

²⁷TANF does not include a provision that prohibits states from using federal TANF funds to replace state funds. However, if states used TANF funds to replace state funds, they may have had to increase their own spending on other low-income programs to satisfy the MOE requirement. For example, a state could withdraw its own funds from a state refundable earned income tax credit for low-income families, and use federal TANF dollars instead. However, it would need to have enough other state spending to count toward its MOE. If it had enough state spending to cover its MOE and had still freed up state dollars, those dollars could be used for unrelated programs or for tax relief.

might be expected in the face of the large caseload drop in the earliest years of TANF.²⁸

However, states have additional flexibility in making spending decisions. While states must meet MOE requirements, federal TANF funds may be “saved for a rainy day,” providing states additional flexibility in their budget decisions.²⁹ In fact, many states had some TANF reserves that they drew down to meet increasing needs in the recent economic downturn.³⁰ Moreover, states have flexibility to provide a wide variety of services—as long as they are in keeping with the four broad purposes of TANF—to those on the cash welfare rolls and to other eligible families.

Nationwide, the amount of MOE spending started to increase in fiscal year 2006 and reached its peak in fiscal year 2009. Several reasons account for this increase:

- Many states (20) accessed TANF Contingency Funds between fiscal years 2007 and 2010—when the fund was depleted—which required them to meet a 100 percent MOE requirement. Further, almost all states accessed the Emergency Contingency Fund in fiscal years 2009 and 2010, which required them to have had increases in one of two specific types of expenditures—short-term, nonrecurrent benefits or subsidized employment—or in the number of families receiving cash assistance.
- Following the Deficit Reduction Act of 2005, an interim rule temporarily broadened the types of activities on which states could spend state funds and be countable for MOE purposes. Between fiscal years 2006 and 2008, total state MOE expenditures increased

²⁸In calendar year 1994, which generally served as the base year for establishing the TANF block grant and MOE amounts, AFDC caseloads had reached their highest levels ever, totaling 5 million families in an average month. This number had dropped to 2.3 million families in calendar year 2000, a period covered by the prior studies on which this testimony is based.

²⁹42 U.S.C. § 604(e). Each year, a state may in effect reserve some of its federal TANF funds to help it meet increased needs and costs in later years. A state's unspent funds can “accumulate” as a type of “rainy day fund” for its future use. Since TANF was created in 1996, states have been permitted to spend prior year TANF block grant funds on assistance—a category that includes cash benefits and supportive services for families receiving these benefits. However, the Recovery Act increased states’ flexibility to spend prior year TANF block grant funds on all TANF-allowable benefits and services.

³⁰For more information on this issue, see GAO-10-525.

by almost \$2 billion, and much of the increase in expenditures was in areas that had temporarily been broadened.³¹

- Many states claimed additional MOE to help them meet the work participation rates, as discussed in the next section.

MOE Spending Helped Some States Meet Work Rates

In recent years, some states have used their MOE spending to help them meet TANF work participation rates. Generally, states are held accountable for ensuring that at least 50 percent of all families receiving TANF cash assistance and considered work-eligible participate in one or more of the federally defined work activities for a specified number of hours each week.³² However, most states have not engaged that many recipients in work activities on an annual basis. For example, in fiscal year 2009, the most recent year for which data are available, less than 50 percent of TANF cash assistance families participated in work activities for the specified number of hours each week in 44 states, according to HHS. However, various policy and funding options in federal law and regulations allowed most of these states to meet their work participation rates. Factors that influenced states' abilities to meet the work participation rates included not only the number of families receiving TANF cash assistance who participated in work activities, but also decreases in the number of families receiving TANF cash assistance, and state MOE spending beyond what is required, for example.

³¹Between the interim rule issued in 2006 and the final rule issued in 2008, HHS allowed states to claim total expenditures related to TANF purposes three and four—the prevention and reduction of out-of-wedlock pregnancies and the formation and maintenance of two-parent families. These expenditures did not need to be directed solely at “eligible families,” and states had significant flexibility to determine allowable expenditures in those areas. The final rule issued in 2008 limited the types of expenditures that states may count in these areas for individuals that do not meet the “eligible families” definition to those “healthy marriage” and “responsible fatherhood” activities specified in federal law.

³²To be counted as engaging in work for a month, TANF families are required to participate in work activities for an average of 30 hours per week in that month. 42 U.S.C. § 607(c). However, federal law sets different weekly work hour requirements for teen parents attending school, single parents of children under age 6, and two-parent families. Further, certain families are not included in the calculation of state work participation rates, such as child-only families and, at state option, single parents of children under age 1. See 42 U.S.C. § 607(b)(5) and 45 C.F.R. § 261.2(n). In fiscal year 2009, about 130,000 families were excluded from the calculation of the all families work participation rate.

Since TANF was created, the factor that states have commonly relied on to help them meet their required work participation rates is the caseload reduction credit. Specifically, decreases in the numbers of families receiving TANF cash assistance over a specified period are accounted for in each state's caseload reduction credit, which essentially lowers the states' required work participation rate from 50 percent.³³ 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. In each year since TANF was created, many states have used caseload declines to help them lower the required work participation rates. For example, in fiscal year 2009, 38 of the 45 states that met their required work participation rates for all TANF families did so in part because of their caseload decreases (see fig. 3).³⁴

However, in recent years, the Congress updated the base year for assessing the caseload reduction credit,³⁵ and as a result, some states also began to rely on state MOE expenditures to increase their caseload reduction credit, which lowers their required work participation rates. Under federal regulations, if states spend in excess of their required MOE amount, they are allowed to correspondingly increase their caseload

³³42 U.S.C. § 607(b)(3). However, under federal TANF statutes, the credit calculation excludes caseload reductions resulting from changes in states' eligibility criteria.

³⁴The caseload reduction credit is generally calculated by determining the change in the state's caseload—or the average number of families receiving TANF cash assistance in each state—between a federally-defined base year and the year preceding the current one. However, the Recovery Act modified the credit calculation for fiscal years 2009-2011 by generally allowing states the option of comparing the base year to the state's caseload in fiscal year 2007, 2008, or the year preceding the current one. This option gives states that experienced caseload increases in more recent years potentially greater caseload reduction credits.

³⁵In fiscal year 2006, the Deficit Reduction Act of 2005 reauthorized the TANF block grant and made several modifications that were generally expected to strengthen TANF work requirements and improve the reliability of work participation data and program integrity. For example, the act changed the caseload reduction credit by moving the base year for measuring caseload declines from 1995 to 2005. Because of this change, the dramatic declines in the numbers of families receiving cash assistance that immediately followed TANF implementation were no longer factored into state caseload reduction credits beginning with fiscal year 2007.

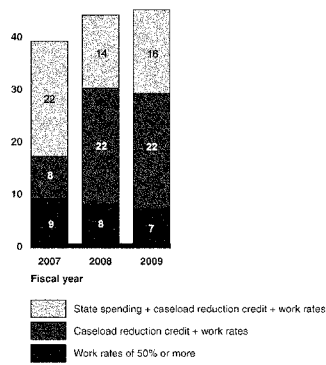
reduction credits.³⁶ By doing so, a state reduces its required work participation rate. In fiscal year 2009, 32 of the 45 states that met their required work participation rates for all TANF families claimed excess state MOE spending toward their caseload reduction credits.³⁷ Sixteen of these states would not have met their rates without claiming these expenditures (see fig. 3). Among the states that needed to rely on excess state MOE spending to meet their work participation rates, most relied on these expenditures to add between 1 and 20 percentage points to their caseload reduction credits (see fig. 4).

³⁶45 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—in its overall caseload number—of the total number of families receiving state-funded cash assistance required to meet the state's basic requirement. This means that in the calculation of a state's caseload reduction credit, its total caseload number is reduced by a number equal to an estimate of the number of assistance cases the excess MOE spending would have supported.

³⁷We did not determine whether these increases reflect new state spending or spending that had been occurring before but was not reported as state MOE spending at that time.

Figure 3: Factors that Helped States That Met Their Work Participation Rates for All TANF Families in Fiscal Years 2007 through 2009

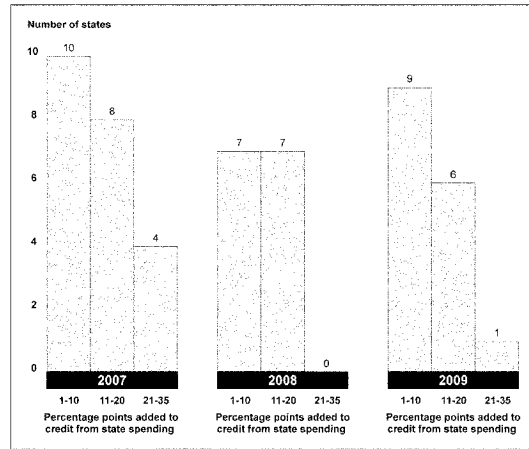
Number of states in each category, by year



Source: GAO analysis of HHS data.

Note: This figure reflects updated information obtained from HHS in 2012.

Figure 4: Extent to Which States' Caseload Reduction Credits Increased because of State Spending beyond What Is Required (for those States That Relied on Such Spending to Meet Their Work Participation Rates for All TANF Families)



Source: GAO analysis of HHS data.

Note: This figure reflects updated information obtained from HHS in 2012.

Increased MOE Role Highlights Importance of Monitoring and Oversight

MOE is now playing an expanded role in TANF programs, as many states' excess MOE spending has helped them meet work participation rates. While one state had used MOE expenditures toward its caseload reduction credit before fiscal year 2007, over half of the states (27) relied on these expenditures to increase their credits and help them meet their required work participation rates in one or more years between fiscal years 2007 and 2009.

States may be making programmatic and budgetary decisions to use excess MOE to help them avoid penalties for failure to meet participation rates and possibly losing funds. In our previous work, states have cited

concerns about difficulties in engaging a sufficient number of cash recipients in required activities for the required number of hours for several reasons, including limits on the types of activities that count, limited resources for developing and providing appropriate work activities, a lack of jobs particularly during tough economic times, and the characteristics of some cash assistance recipients that make it difficult for them to engage in countable work activities.

However, this greater emphasis on the use of MOE increases the importance of understanding whether effective accountability measures are in place to ensure MOE funds are in keeping with requirements. In our 2001 report, some states expressed concerns that this MOE provision could become difficult to enforce. In doing that work, we spoke to many auditors who were in the midst of developing audit plans to address compliance with the new spending test. Several told us that developing these plans was relatively straightforward: the auditor should simply be able to establish a baseline for all the MOE expenditures the state was using and then trace those programs back to 1995 and certify that spending used for MOE was indeed new spending. However, we also noted that these plans could become more complex if states frequently changed the expenditures they were counting from one year to the next (i.e., changed the programs for which they needed baselines). In one state at that time, we were told that all expenditure data were archived after 5 years, and that auditing the annual certification would be especially difficult and time consuming if the state changes the programs it uses to meet its MOE requirement from year to year. We expect that several factors, such as changes in what MOE expenditures states may count, growth in some particular spending areas, as well as the growth in MOE spending overall may have greatly increased the complexities involved in tracking MOE.

In its final rule published in 1999,³⁸ HHS provided information related to its plans for monitoring state MOE and noted that states recognize that they are ultimately accountable for their expenditure claims. HHS stated that states are audited annually or biennially and compliance with the

³⁸64 Fed. Reg. 17,720.

basic MOE provisions is part of the audit.³⁹ HHS added that it would use the results of the audits, together with its own analysis of state-provided data—required state quarterly expenditure reports and annual descriptive reports on MOE activities—to assess states' compliance. It also said it might undertake additional state reviews based on complaints that arise or requests from the Congress.

We have not reviewed existing efforts to monitor MOE and cannot comment on their effectiveness. However, the extent to which states have relied on these expenditures to help them meet work participation rates as well as meeting MOE generally highlights the importance of having reasonable assurances that current oversight is working. If MOE claims do not actually reflect maintaining or increasing service levels, low-income families and children may not be getting the assistance they need in the current environment and federal funds may not be used in the most efficient manner.

Observations

MOE provisions are important but not without implementation and oversight challenges. Based on our previous work on federal grant design as well as more recent work on some MOE provisions under the Recovery Act, it is clear that such provisions are important mechanisms for helping ensure that federal spending achieves its intended effect. With TANF, what is at stake are billions of federal and state dollars that together represent a federal-state partnership to help needy families provide for their children and take steps toward economic independence. The work also points to administrative, fiscal, and accountability challenges in implementing MOE provisions, both from federal and state perspectives. While MOE provisions may be imperfect tools, with appropriate attention to design, implementation, and monitoring issues, such provisions are one way to help strike a balance between the potentially conflicting objectives of increasing state and local flexibility while attaining certain national objectives, including efficient use of federal resources in today's fiscal environment.

³⁹Compliance with federal financial requirements is generally assessed annually through the state's single audit. Rather than being a detailed review of individual grants or programs, a single audit is an organizationwide financial and compliance audit that focuses on accounting and administrative controls. A single audit is designed to advise federal oversight officials and program managers on whether an organization's financial statements are fairly presented and to provide reasonable assurance that federal financial assistance programs are managed in accordance with applicable laws and regulations.

We provided drafts of the reports we drew on for this testimony to HHS for its review, and copies of the agency's written responses can be found in the appendixes of the relevant reports. We also provided HHS a draft of this testimony, and officials provided technical comments that we incorporated as appropriate.

Chairman Davis, Ranking Member Doggett, and Members of the Subcommittee, this concludes my statement. I would be pleased to respond to any questions you may have.

**GAO Contact and
Staff
Acknowledgments**

For questions about this statement, please contact Kay E. Brown 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. Individuals who made key contributions to this statement include James Bennett, Robert Campbell, Rachel Frisk, Alex Galuten, Gale Harris, Tom James, Jean McSween, Ronni Schwartz, and Michelle Loutoo Wilson.

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Chairman DAVIS. That was actually precisely 5 minutes and zero seconds. Thank you for your precision.

Ms. BROWN. You are welcome.

Chairman DAVIS. I would like to now introduce Mr. Grant Collins, senior vice president for workforce services at ResCare, which is based in my home State, the Commonwealth of Kentucky. ResCare provides workforce services for individuals with barriers to employment, as well as residential and support services for people with disabilities.

Grant was previously the Deputy Director of the Office of Family Assistance at HHS, which is the office responsible for admin-

istering the TANF program at the Federal level. He was involved with the drafting of TANF regulations as a result of the passage of the Deficit Reduction Act in 2006, and because of his involvement, he is very familiar with the issues that we are discussing today. He has previously worked on welfare reform in both Wisconsin and New York City, and I am very pleased that he can join us today.

Mr. Collins, would you proceed with your testimony.

**STATEMENT OF GRANT COLLINS, SENIOR VICE PRESIDENT
FOR WORKFORCE SERVICES, RESCARE**

Mr. COLLINS. Good afternoon, Chairman Davis, Ranking Member Doggett, and distinguished Members of the Subcommittee. Thank you for inviting me to testify on the impact of State TANF spending and TANF work requirements.

I am currently the senior vice president of ResCare Workforce Services. ResCare is a human service company dedicated to helping people achieve their highest levels of self-sufficiency. However, today I also wish to offer a few insights from my role as former Deputy Director of the Office Family Assistance, the Federal agency that oversees the Temporary Assistance for Needy Families program.

In particular, I am here to discuss a few specific TANF provisions: State spending requirements, known as maintenance-of-effort, or MOE requirements; the counting of State and third-party spending towards MOE requirements; and the impact of that State spending on work participation rates.

Work requirements were a key part of welfare reform in 1996. States must keep at least 50 percent of adults participating in activities like employment, job search, or vocational training. States receive credit toward meeting the 50 percent work rate if they reduce caseloads over time.

Another key provision of welfare reform is what is called maintenance-of-effort, or MOE, requirements. That makes sure States continue to invest their own money in the program. The goals of the work and MOE requirements were to well ensure that the program continued to be a Federal-State partnership, and that both parties were financially invested in helping families become self-sufficient.

After welfare reform became law, child poverty declined, unmarried birth rates fell, and many recipients went to work. As a result caseloads fell dramatically. Because States received credit for their work requirements if caseloads dropped, it also meant the 50 percent work requirement was near zero or near zero in many States.

To strengthen the work requirement, Congress passed the Deficit Reduction Act of 2005. As a result many States increased their efforts to find people work. However, States also found other ways to meet the Federal requirements, one of which became known as "excess MOE." The excess MOE provision allows States to reduce their work requirement if they spend more than is required. Only one State used excess MOE prior to DRA, but today dozens of States report spending more than is required.

This chart shows how spending reported annually by States appears to have increased dramatically in the years since the DRA was passed. The post-DRA years are shaded in red.

Why would States begin reporting increases in spending during that time? One reason is because excess MOE meant that they could reduce their work requirement by reporting additional spending. So even though the DRA was intended to strengthen work requirements, as there were 19 jurisdictions at the time with no work requirements, now there are more, 22, that have no work requirement partially due to excess MOE.

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.

I appreciate the subcommittee's interest in this issue, and I hope that the members of this subcommittee and this panel can work together to ensure that TANF is working as intended. I look forward to answering any questions that you might have.

Chairman DAVIS. Thank you very much, Mr. Collins.

[The prepared statement of Mr. Collins follows:]

**Testimony of
Grant Collins, Senior Vice President
ResCare Workforce Services**

**House Ways and Means Subcommittee on Human Resources
“State TANF Spending and Its Impact on Work Requirements”
May 17, 2012**

Good afternoon Chairman Davis, Ranking Member Doggett, and distinguished members of the Subcommittee. Thank you for inviting me to testify on the impact of State TANF spending on TANF work requirements.

I am currently the Senior Vice President of ResCare Workforce Services. ResCare is a human services company with operations nationwide. We are dedicated to helping people achieve their highest level of self-sufficiency. However, today I wish to offer a few insights from my role as the former Deputy Director of the Office of Family Assistance, Administration for Children and Families, U.S. Department of Health and Human Services, the agency overseeing the Temporary Assistance for Needy Families (TANF) program. In particular, I am here to discuss a few specific TANF provisions—state spending requirements created during the welfare reform in 1996, known as “Maintenance of Effort” or “MOE” requirements, the counting of state and third-party spending toward MOE requirements, and the impact of that state spending on work participation rates.

The Creation of TANF and the Purpose of MOE

Work Requirements

A major focus of welfare reform was to support and encourage work. To ensure that states helped families enter the workforce, Congress established a work requirement obliging states to engage families in work and job preparation activities for 30 hours per week. To avoid financial penalties and receive their full block grant, states needed to have at least 50 percent of their work-eligible caseload meet these work requirements. In addition, states received credit toward meeting this new 50 percent requirement if they reduced their caseloads over time. The strategy was designed to increase the number of people in the workforce and reduce the number of families dependent on subsidies.

Maintenance of Effort

When welfare reform was enacted, there was concern that by making TANF a block grant states would lose their incentive to spend their own funds in the TANF program. To address this, Congress established a “Maintenance of Effort” or “MOE” requirement to ensure state spending continued. It also codified the Federal/State financial partnership, ensuring that both parties remained invested in helping families become self-sufficient.

According to the House Report¹ on the final welfare reform bill, the Committee noted:

“The family assistance block grant program provides states with broad new flexibility in the use of Federal funds to operate their statewide welfare programs. In general, there are few restrictions on the use of state funds. However, because the current welfare system requires state matching of Federal funds, some have expressed the concern that states should be forced to maintain a certain level of spending in order to receive full Federal funding. Thus the committee proposal requires states to maintain 75 percent of prior funding levels on related welfare programs over the early years of the block grant program. This level is designed to allow states that are successful in reforming welfare and moving families into work to achieve considerable savings, while also guaranteeing that a basic national safety net remains in place in every state.”

TANF Reauthorization in the Deficit Reduction Act

After welfare reform, TANF caseloads fell dramatically. Child poverty declined, unmarried birth rates fell, and many welfare recipients went to work. While this indicated the success of the program, it also meant that the substantial caseload declines eroded the 50 percent work requirements. As stated in testimony to this Subcommittee in March of 2007, due to this caseload decline, “in FY 2004 [the latest data available at the time testimony was given], 17 States and two Territories faced an effective overall participation rate of 0 percent, and nationally the adjusted target due to caseload reduction was only 6 percent.” So the success of the program and the unforeseen generosity of the credit, led many states to have no work requirement at all. The states that did have a work requirement needed only six people out of every 100 on average to meet the requirements to succeed.

Congress passed the Deficit Reduction Act of 2005 to address these issues and strengthen the work requirements to ensure states move more families from welfare to work. The bill “reset” the credit states received for reducing caseloads, so in future years work requirements would only be reduced if their caseloads fell from FY 2005 levels. Along with other changes, the new requirements meant most states had to significantly increase their efforts in engaging families in work. States would have needed, on average 40 people out of every 100 to meet their work requirements to succeed.

State Use of “Excess MOE” Credits

When the strengthened work requirements and other new policies became law, states began determining how they could satisfy the new requirements. As intended, many states reviewed their caseloads and worked harder to help families find work and leave welfare. However, states also found other creative ways to meet the Federal requirements. One way was a little-known provision from a 1999 Federal regulation which became known as “excess MOE” or Maintenance of Effort.

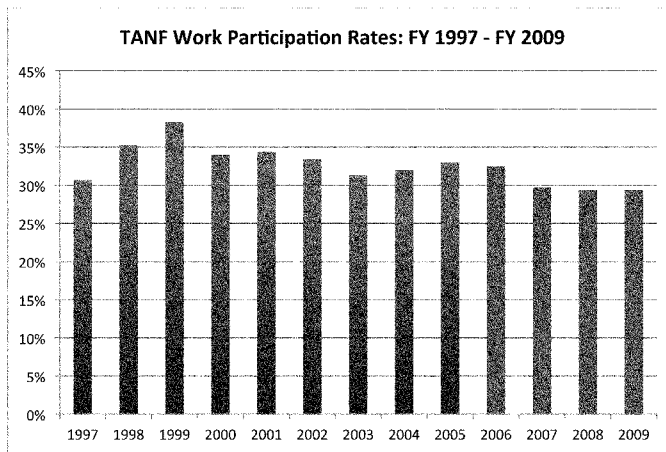
Under Federal law states must maintain a minimum level of state spending in the TANF program or “Maintenance of Effort.” After TANF was created, there were debates in the Administration

¹ House Report 104-651, Welfare and Medicaid Reform Act of 1996: Report of the Committee on Budget to Accompany H.R. 3734.

about some of the MOE provisions during the regulatory process and how they would function. In the 1999 final published regulations, the Department of Health and Human Services (HHS) included a new policy about state spending beyond the required MOE level, calling it "excess MOE." Under this policy, a state that reported spending more than their required level would get credit that would lower their work rate, similar to how a state could earn credit toward their work rate by reducing their caseloads over time. In short, the idea was that if states spent more than required and therefore may have had a higher caseload than if they spent only the required amount, HHS would not count those "extra" cases against them. HHS developed a formula that would reduce a state's work requirement in proportion to the excess MOE spending it reported.

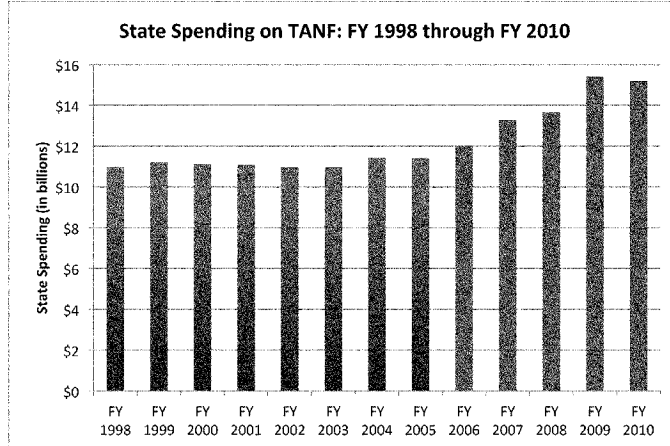
This provision was virtually unknown in 2006 when the DRA became law. At the time, only one state had used excess MOE credit to reduce work participation requirements. I was the Deputy Director of the office drafting regulations on the DRA at the time, and as the implementation of these regulations began, we soon saw the provision, which had lain dormant since TANF's inception, become a much bigger issue. The following graphics illustrate what happened to the work rates and state spending.

First, in the chart below, work requirements were almost unchanged after DRA. In fact, they declined slightly from prior years (post-DRA years shaded red).



Source: TANF Work Participation Data, Administration for Children and Families

In the second chart, it appears state spending increased dramatically (post-DRA years shaded red).



Source: ACF-196 financial data reported annually by States

Impact of Excess MOE on Work Requirements

What caused this dramatic increase in what had been relatively stable spending in past years? Why would states suddenly report significant increases in spending? One reason is because using the excess MOE provision allowed them to meet their work rate without having to put a single person into a job or job preparation activities.

In the years after DRA passed, states began reporting increasingly higher levels of state spending leading to more excess MOE. In FY 2004, only one state reported spending more than 100 percent of their required MOE level. By FY 2009, 23 states were reporting spending more than 100 percent of the required level. This resulted in large excess MOE claims that reduced work rate requirements for many states. The larger the excess MOE, the greater the credit against the work rate, which results in fewer recipients needing to find work in order to avoid penalties.

One of the main components of the Deficit Reduction Act was to “reset” the credit to ensure states engaged more families in work activities. But the intended impact of the DRA appears to have been mitigated because of excess MOE. In FY 2004, there were 19 jurisdictions (17 states and two territories) that had no work requirement, a fact often cited as a reason for strengthening work requirements. But after the DRA, and because of this excess MOE provision, there were even more jurisdictions—22 (21 states and one territory)—that had no work requirement. Instead of more recipients working, work participation rates have declined since the DRA and more than half of all TANF recipients have not been required to work for any amount of time over an entire year. GAO pointed out in a September 2011 report that in FY 2009, 32 of the 45 states meeting work rates claimed at least some credit for excess MOE spending, and 17 would not have met

their work participation requirements without the credits, which would have resulted in penalties.

Counting State and Third-Party Spending as TANF MOE

State Spending on Related Programs

States expanded their examination of all state expenditures that might meet a TANF purpose and could be reported as TANF spending. This is legitimate under current program rules, although the state must attest that the spending they report is either for a new program created after FY 1995, or that the amount exceeds the FY 1995 spending levels (called the "new spending test").

For example, some states began new child care or after school programs, pre-kindergarten classes, or state-funded Earned Income Tax Credit programs after welfare reform became law. Although most had not decided to report this spending as MOE in the past, the strengthened work requirements in the DRA caused many states to look for and report these expenditures as part of the TANF program.

One state reviewed its expenditures across 44 state programs and secured enough excess MOE to avoid a work participation rate penalty in 2007. While just under \$90 million (over 200+ percent of minimum MOE requirement) in TANF spending was needed to avoid the penalty, the state actually identified additional "untapped" TANF spending of over \$1.7 billion.

Third-Party Spending

In 2004, while I was working at HHS on TANF policy, our agency was asked to clarify whether third-party cash or in-kind spending could count as state spending in the TANF program. Because of existing regulations, it was determined that these expenditures could be claimed as MOE. At the time, this was not seen as monumental, as it simply reiterated the way third-party spending could be counted in TANF and many other programs. States looked at excess MOE as a way to account for these services and the claiming of third-party spending has increased substantially.

Let me provide two examples of how a state would claim third-party expenditures as TANF MOE:

1. Food bank: A nonprofit decides to open a new food pantry in the state. The food bank primarily serves low-income families, many with children. Seeking to increase the state's TANF MOE, the state contacts the nonprofit and sets up an agreement under which certain food bank expenditures are counted as TANF spending. The state believes this service meets one of the purposes of the TANF program. The food bank estimates the value of the food provided to families to be \$2 million over the year. They also estimate that half of the food boxes given out went to families with children. As a result, the state could now report to the Federal government \$1 million in TANF MOE spending, provided by the food bank.
2. Volunteer hours: An urban school district has recently set up an after school program for elementary school children staffed by volunteers from the community. Because the purpose of the program is to keep kids constructively engaged and to teach life skills, the

state determines this activity meets one of the TANF purposes. The state signs an agreement with the district to monetize the value of volunteer time provided. The district determines that volunteers donated over \$1 million in volunteer time to the program, and the state reports this \$1 million as TANF MOE spending.

As you can see, claiming of third-party spending can be quite broad, and can include many things that most would likely not label as “spending” in the traditional sense. In addition, the potential sources from which to collect third-party spending is vast and these sources will likely expand as new programs are created and more current programs are discovered.

While the claiming of third-party spending has undoubtedly increased since the passage of DRA, HHS has recently blocked some states from what they believed were beyond the bounds of the TANF program. In one case, a state calculated the value of free emergency medical care provided to low-income families and claimed this as state TANF spending. HHS rejected the state’s claim, noting that the costs represented foregone revenue, not TANF spending. HHS also disagreed with the methodology used to estimate the amount and did not allow the claim.

In another case, a state estimated the value of oil spill compensation payments to families made by a private company, and then sought to claim these dollars as TANF MOE spending. HHS also rejected this claim, saying both that the payments did not qualify as TANF spending and that the estimation methodology did not meet established guidelines for “reasonable estimates.”

Concerns About State Spending

What are the concerns with these provisions?

- a. Work rates are undermined - spending more means lowering or removing work requirements
- b. Counting spending in other areas (state pre-k, pregnancy prevention, youth after-school activities, etc.) may supplant real TANF dollars
- c. Counting expenditures that are not really cash outlays as though they are may divest the program without it appearing like funds are being lost

Conclusion

In closing, let me 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 the rules and regulations to meet Federal requirements. However, based on my experience in 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.

In the fall of 2008, HHS agreed that this excess MOE provision should be eliminated and proposed doing so. However, the policy has continued.

I appreciate the Subcommittee’s interest in this issue, and I hope that all members of this Subcommittee—and this panel—can work together to ensure that TANF achieves its intended

results. TANF has previously been cited as one of the most effective social reforms in our nation's history. I hope that it will continue to be seen as a critical Federal/State partnership that is successful in helping more and more low-income families move from welfare to work.

I look forward to answering any questions you might have.

Chairman DAVIS. I would like to recognize Mr. Berg from North Dakota to introduce the witness from his own State, Mr. Cartledge.

Mr. BERG. Thank you, Mr. Chairman.

I am really tickled to have Carol Cartledge here from North Dakota. She oversees the TANF program in North Dakota, and I asked her to come out and share some of the commonsense things that they are doing in North Dakota with the committee.

And so thank you for being here.

Chairman DAVIS. Thank you, Ms. Cartledge. You may proceed.

STATEMENT OF CAROL CARTLEDGE, DIRECTOR, ECONOMIC ASSISTANCE POLICY DIVISION, NORTH DAKOTA DEPARTMENT OF HUMAN SERVICES

Ms. CARTLEDGE. Chairman Davis, members of this subcommittee, I am here today to provide you with information on North Dakota Temporary Assistance for Needy Families program.

Maintenance of effort is the amount a State must spend in order to receive the TANF Block Grant. Excess MOE is in excess of the amount that States need to meet the MOE expenditure requirements.

A State may claim as excess MOE existing State and third-party spending. Using this option allows the State to reduce their target work participation rate and operate separate State programs to address special needs of families with severe barriers to employment.

Target work participation rate is a percentage of a TANF household required to participate in work activities, which may be lowered by a caseload reduction credit.

States must engage 50 percent of the TANF participants who are work eligible and 90 percent of two-parent TANF families in work activities, or States face financial penalties for failing to meet the work participation rate. However, the rates a State must actually meet for a Federal fiscal year are reduced by the amount of a State's caseload reduction credit. Generally the caseload reduction credit equals the number of percentage points that a State reduces its overall caseload in the prior fiscal year compared to the overall caseload in base year, which is 2005. If a State utilizes the excess MOE option, it further reduces the caseload reduction credit.

North Dakota took a serious look at the excess MOE option with the implementation of the Deficit Reduction Act. After much discussion North Dakota decided not to rely on excess MOE as a means of meeting the work participation rate, but instead looked at other options under TANF. Taking it a step further, we looked at ways to meet the 50 percent work participation rate without using the caseload reduction credit to stay within the Federal work requirements. In order to achieve this goal, North Dakota researched our current policies and procedures.

In 2006, the North Dakota Department of Human Services conducted on-site visits to the counties and State levels to determine where improvements could be made. Many of the discussions surrounded why TANF clients could not do the work activities. Obstacles typically related to mental health, family and health issues.

Based on these visits, we learned we needed to change the focus from what clients can't do to what they can do. Further, we needed to look at the entities that work with our families with multiple barriers and agencies with the skills and the expertise to work effectively with various populations in North Dakota.

This led to contracts for case management and employment services with three agencies: Community Options, Job Service North Dakota, and Tribal Employment and Training. Under TANF, adults receiving assistance are expected to engage in work activities and develop capacity to support themselves and their families.

We also shifted our focus on the federally defined work activities and on how to make the work activities work for us instead of against us. North Dakota uses the full array of options, with some

individuals involved with many activities. We have become creative with the work activities such as working with our tribal agencies for TANF clients to achieve the required hours. One of the examples is during a powwow, where we can count some of the hours that some of the individuals may be participating in a powwow.

North Dakota continued to look at the TANF and how we could improve the program to better serve our clients and their needs. Today North Dakota has regular TANF benefits and these additional options: Diversion assistance, which provides short-term benefits to families that are employed or will be employed to help the parent or caregivers remain employed.

We also have our regular TANF benefits. Within the regular TANF benefits we have—it is called Pay After Performance—work-eligible individuals are required to meet work requirements before their needs are met. This means that the child-only payment is made, and if the work-eligible individual meets the work requirements, we would provide them with a supplement benefit. If the work-eligible individual does not meet the requirement, a sanction is imposed. The reasons for this requirement is so that individuals will become work ready, get used to what a paycheck is like.

We have now entered into a new endeavor, which is called a career ladder, where we are allowing individuals to pursue secondary education. We have a Kinship Care program, which expands the options of placements for children who are in the care, custody, and control of the child welfare system. We have transition assistance, which promotes job retention by providing extended periods of assistance to qualified families. And then we have post-TANF, which is once they totally lose TANF assistance. We also provide support services to families.

Implementing these changes to North Dakota has resulted in a work participation rate increase. In Federal fiscal year 2005 without a caseload deduction credit, North Dakota work participation rate was 31.45 percent.

Chairman DAVIS. Ms. Cartledge, would you mind summing up briefly? We are over a bit.

Ms. CARTLEDGE. Of course.

With these changes, North Dakota has been able to increase its work participation rate by 128 percent.

That concludes my testimony, and I would be happy to answer any questions that you may have.

Chairman DAVIS. Thank you very much.

[The prepared statement of Ms. Cartledge follows:]

**Testimony of
Carol Cartledge
Director of Economic Assistance Policy Division
North Dakota Department of Human Services
House Ways and Means
Subcommittee on Human Resources
Chairman Geoff Davis
May 17, 2012**

Chairman Davis, members of the subcommittee, I am here today to provide you with information on North Dakota's Temporary Assistance for Needy Families (TANF) program.

Maintenance-of-effort (MOE) is the amount a state must spend in order to receive the TANF block grant. Excess MOE is in excess of the amount the State needs to meet its MOE expenditure requirement. A State may claim as 'excess MOE' existing State and third-party spending. Using this option allows a State to reduce their target work participation rates and operate separate state programs to address special needs of families with severe barriers to employment. Target work participation rate is the percentage of TANF households required to be participating in a work activity which may be lowered by a caseload reduction credit.

States must engage 50 percent of TANF participants who are work-eligible and 90 percent of two-parent TANF families in work activities or states face financial penalties for failing to meet the work participation requirements. However, the rates a state must actually meet for a federal

fiscal year are reduced by the amount of a state's caseload reduction credit. Generally, the caseload reduction credit equals the number of percentage points that a State reduces its overall caseload in the prior fiscal year compared to its overall caseload in the base year. If a state utilizes the excess MOE option, it further reduces the reduction credit.

North Dakota took a serious look at the excess MOE option with the implementation of the Deficit Reduction Act of 2005. After much discussion, North Dakota decided not to rely on excess MOE as a means of meeting the work participation rate but instead looked at other options under the TANF. Taking it a step further, we looked at ways to meet the 50 percent work participation rate requirement without using a caseload reduction credit to stay within the federal work requirements. In order to achieve this goal, North Dakota researched our current policy and procedures.

In 2006, the North Dakota Department of Human Services conducted on-site visits at the county and state level to determine where improvements could be made. Many of the discussions surrounded why TANF clients cannot work or be in a work activity. Obstacles typically related to mental health, family and health issues. Based on these visits, we learned we needed to change the focus from what clients cannot do to what they can do. Further, we needed to look at entities that work with families with multiple barriers and agencies with the skill set and expertise to work effectively with various populations in North Dakota.

This led to contracts for case management and employment services with three agencies: Community Options, Job Service North Dakota, and Tribal Employment and Training. Under TANF, adults receiving assistance are

expected to engage in work activities and develop the capability to support themselves and their families.

We also shifted our focus on the federally defined work activities and how to make the work activities work for us and not against us. North Dakota uses the full array of work activities to, with some individuals involved in more than one activity. We have become creative with the work activities such as work with Tribal agencies for TANF clients to achieve the required number of hours while participating in a Pow-wow, purchase equipment for self-employment business, or groups of TANF clients work together to support a community project.

North Dakota continued to look at TANF and how we could improve the program to better serve our clients and their needs. Today, North Dakota has regular TANF benefit and these additional options:

- **Diversion Assistance**, which provides short-term help to families that are employed or will be employed, to help the parents/caregivers to remain employed.
- A **regular TANF** benefit, which is a monthly benefit with a 60-month lifetime limit.
 - **Pay After Performance** – Work-eligible individuals are required to meet work requirements before their needs will be met. This means a child-only payment is made, and if the work-eligible individual meets the work requirements, a supplement payment is made to meet that individual's needs. If the work-eligible

individual does not meet the work requirements, a sanction is imposed. This requirement is for the first four months on TANF.

- A new endeavor is a **Career Ladder** started in 2011 – Individuals pursuing secondary education in a highly employable field in North Dakota are allowed to pursue education beyond the 12-month federal limitation.

- **TANF Kinship Care** assistance expands the options for placement of children who are in the care, custody, and control of the child welfare system by providing enhanced funding and services to those who qualify eligible for the program.

- **Transition assistance** promotes job retention by providing an extended period of assistance to qualified TANF households to further assist working families to remain self-sufficient from TANF.

- **Post TANF** provides six months of support services once a family is no longer eligible for TANF or Transition Assistance.

- **Support services** are provided to TANF families such as a transportation allowance to get to and from work activities, help with car repairs, clothing for work or job interviews, tools or equipment for work, professional license fee, and tuition assistance. All support services have annual dollar limitations.

Implementing these changes to the TANF program has resulted in a work participation rate increase. In federal fiscal year 2005, without caseload

reduction credit, North Dakota's work participation rate was 31.45 percent. That rate increased to 71.7 percent the first quarter federal fiscal year 2012. This is a 128 percent improvement.

This concludes my testimony. I would be happy to answer any questions you may have.

North Dakota TANF Stories

When "George" first started with the JOBS program, he was a recently divorced father of three boys ranging in age from 3-7. He came to the JOBS program eager to work and get his life back on track. "George" had not worked in a paying position since his eldest child was born, as he was a stay-at-home dad for his children while his ex-wife worked. He was still a little shaken from his divorce, but had the personal motivation and desire to better himself and his family. After a brief period of volunteering at a local thrift store and an assessment of his skills and interests, "George" found employment at a retail store. With his hard work and positivity, "George" quickly gained a department management position. At his last meeting with his employment specialist, "George" shared that he was offered a higher management position and planned to accept the offer.

North Dakota TANF Stories

I graduated with a bachelor's degree in Human Services in 2010. The following fall I accepted a case management position. I was so excited and eager to work as a case manager. Throughout the next year and a half my knowledge of the TANF program and the customers I worked with grew tremendously. I learned things from first hand experiences that I could not have learned from a book or sitting in a lecture. I learned how to handle stressful and difficult situations with ease and grace. I have seen the power of a helping hand and believe that I have made positive, long lasting impressions in the lives of the customers I have served.

In my continued quest to help people I began the journey towards my Master's in Social Work degree in January 2012. Shortly after that I received a promotion to director in North Dakota. I continue to build on a wealth of knowledge from my colleagues, my customers, and my schooling. All areas of my life seem to blend together and my knowledge in the field of Human Services continues to grow on a daily basis.

TANF is a great program that gives people opportunities that they might not have had without the program.

North Dakota TANF Stories

Because of you guys helping me I have a great job that I love and because of my job I am able to stay in Valley City. I was living on a reservation before moving to Valley City. My life was very bad and my children were suffering. My boyfriend was abusive to me and my children. With the help of Community Options I am safe and enjoy my life now. You guys also helped me out with mileage that helps out a lot and new clothes for my job I really appreciate the help you guys have given me. Thank you very much.

Chairman DAVIS. Mr. Palermino.

**STATEMENT OF PETER J. PALERMINO, TANF ADMINISTRATOR,
CONNECTICUT DEPARTMENT OF SOCIAL SERVICES, REP-
RESENTING THE AMERICAN PUBLIC HUMAN SERVICES AS-
SOCIATION**

Mr. PALERMINO. Good afternoon, Chairman Davis, Ranking Member Doggett, distinguished Members of the Committee. My name is Peter Palermino. I am the TANF administrator as well as the child care administrator for the State of Connecticut. The TANF program is operated through the Connecticut Department of

Social Services. I am here on behalf of the State of Connecticut, the National Association of State TANF Administrators, and the American Public Human Services Association.

I am pleased to be here to discuss the ongoing partnership between the Federal Government and the States, and the ongoing effort to support low-income or no-income families to attain self-sufficiently. I expect that today's hearing will move us forward in an open discussion on how States such as Connecticut are faring in their efforts to help families with complicated needs, how our State is implementing strategies to help families through strategic investment of our State TANF MOE dollars, and possible options for improving the system based on our experience and experiences of other States across the country.

Let me share a few stats for you for Connecticut. Our TANF Block Grant is \$267 million, which brings our MOE requirement to \$183 million, for a total of \$450 million. That is a nice piece of change to use to help support a lot of families, and yet despite that, we still look for more as best we can.

We currently serve 17,500 with direct cash assistance each month. That total is down from a high of 24,000 back in 2005. And we also serve several thousand more families with the TANF MOE to obtain and maintain self-sufficiency.

Connecticut has a time limit of 21 months, with up to two 6-month extensions for mandatory recipients. So our typical length of stay for a TANF client is around 33 months.

Since October of 2010, Connecticut's monthly work participation rate has exceeded 50 percent without factoring in the caseload reduction credit or any excess MOE credit. Since the work participation rate is dependent on so many factors, including barriers of individuals' access to jobs, education, transportation, and other supports, we are pleased to know that the State's additional investments in excess MOE may assist us if our rate begins to drop. We have used the caseload reduction credit and excess MOE in years past, and we expect we may need to in the future.

States do like the flexibility provided by the TANF Block Grant. The ability to design programs and utilize State and Federal funds is essential to meet differing needs of our State populations and economic variables, and yet still address the four TANF purposes. Thus, we urge you to continue to maintain this flexibility and honor those provisions that are in the TANF regulations.

A little historical information. In 1996, Connecticut's TANF program expanded beyond the Aid to Families with Dependent Children population to serve a much broader and diverse population to families with incomes less than 75 percent of the State median income level.

We have other programs that are supported by TANF and MOE funds, and they include job training, child care, transportation. Those are important and critical employment support programs for those individuals. These programs do help targeting families get to and stay at work and begin the road to self-sufficiency.

In October of 2007, Connecticut did move our two-parent cash assistance families to a solely State-funded program. We recognized that we could not attain the 90 percent participation rate. Hard decision in 2007, similar to other States, was eventually recognized

by Chairman Davis in a statement he made in 2011, which I quote: "Current welfare rules create marriage penalties by expecting a greater share of married parents to be working and for more hours. States have responded by in effect opting out of such requirements altogether," quotations closed.

TANF MOE in Connecticut has been very consistent over several years. The excess MOE is an extension of those funds that demonstrate the additional commitment of funding by the State to these TANF-directed programs. Connecticut has exceeded its MOE requirement for several years, and we expect to continue to do so.

We do believe that the work participation rate is limiting, and there are a variety of reasons why, but we believe the caseload reduction and the application of excess MOE is a thoughtful provision for our States.

In conclusion, I believe Congress and the Department of Health and Human Services in the States all desire similar results, and we are here today to work with you and will be happy to take some questions.

Thank you.

Chairman DAVIS. Thank you, Mr. Palermino.

[The prepared statement of Mr. Palermino follows:]



**US House of Representatives, Ways and Means Committee
Human Resources Subcommittee
“State TANF Spending and its Impact on Work Requirements”
May 17, 2012**

**Testimony of Mr. Peter J. Palermino
TANF Administrator, Bureau of Assistance Programs
Connecticut Department of Social Services**

Chairman Davis, Ranking Member Doggett, distinguished members of this committee, my name is Peter Palermino and I am the TANF Administrator for the State of Connecticut. The TANF program is operated through the Connecticut Department of Social Services. I am here on behalf of the state of Connecticut, the National Association of State TANF Administrators and the American Public Human Services Association. I am pleased to be here to discuss the ongoing partnership between the Federal government and the states in the ongoing effort to support low income or no income families to attain self-sufficiency. I expect that today’s hearing will move us forward in an open discussion on how states such as Connecticut are faring in their efforts to help families with complicated needs, how our state is implementing strategies to help families through strategic investment of our state TANF Maintenance of Effort (MOE) dollars, and possible options for improving this system based on our experience and the experiences of other states across the country.

The flexibility that the TANF Block Grant provides states in designing programs and utilizing state and federal funds is essential to meet the differing needs of state populations and economic variables while achieving the four TANF purposes. We urge you to maintain this flexibility and continue to honor the provisions that exist in the TANF regulations.

In 1996, Connecticut's TANF program expanded beyond the Aid to Families with Dependent Children (AFDC) population, to serve a broader, more diverse population of families with incomes less than 75% of the State Median Income. This means that TANF not only includes the Temporary Family Assistance-Cash Assistance and Employment Services clients, but families and children with goals and needs to attain and maintain employment. Other programs supported by TANF and MOE funds include work programs, job training and education, youth training and education programs, child care and transportation programs that help families get to and stay at work. Connecticut is currently serving 17,500 families with direct cash assistance each month (down from 2005 when we served over 24,000 families) and several thousands more families to attain and maintain self-sufficiency. Connecticut has a time limit of 21 months with up to two 6-months extensions for mandatory recipients. While the state provision limits the time that work-eligible recipients have to complete training and/or job related activities, Connecticut is able to coordinate programs and services with additional TANF programs to provide essential supports to families to help maintain self-sufficiency as they transition from cash assistance.

In October of 2007, Connecticut moved the Two-Parent cash assistance cases to a Solely State Funded (SSF) program. This is a state commitment to provide the employment services equal to TANF, with funds that are above and beyond state MOE and Excess MOE. Our 2007 decision, similar to other states, was eventually recognized in a September 2011 statement by Chairman Davis: "...current welfare rules create marriage penalties by expecting a greater share of married parents to be working, and for more hours. States have responded by in effect opting out of such requirements altogether."

TANF MOE, in Connecticut has been very consistent over several years in the diverse programs that are MOE funded. The Excess MOE is an extension of those funds, and demonstrates the additional commitment of funding by the state to these TANF directed

programs. Each year the TANF Annual Maintenance of Effort Report (Form ACF-204) provides a platform to showcase the financial commitment of state dollars and highlight the number of families served by these programs. Connecticut has exceeded its MOE requirement for several years and expects to continue to do so. In part this allows for fluctuations in client eligibility and associated quarterly spending by multiple programs. It ensures enough qualifying MOE.

We believe that the Work Participation Rate, as the sole measure for the TANF program's performance, is limiting. While initially useful in the 1990's and up until the Deficit Reduction Act in 2005, the Work Participation Rate has become an ever narrowing measurement of process over real results leading to today's system which overemphasizes the process of TANF engagement, is less of a reflection of state work and goals for their TANF block grants, and that is providing a data and accountability tool that is growing less informative and useful to the federal government as time goes by. At this point, WPR is more a measurement of how "busy" state TANF agencies and their clients are as opposed to a means of measuring whether programs are making genuine strides in helping families with their federal and state TANF dollars. While this measure provides insight into the process of engagement in TANF work activities, Connecticut's TANF program, as well as other states, includes an array of programs and services that support families in becoming self-sufficient. The measures of success for these families are seen in measures outside the parameters of the Work Participation Rate, yet still lead to self-sufficiency.

The Caseload Reduction Credit and application of Excess MOE is a thoughtful provision for states. The Excess MOE provision allows a buffer from the raw Work Participation Rate of cash assistance clients fully engaged in countable work activities. Excess MOE acknowledges states with credit for the Work Participation Rate for spending additional state funds to meet the purposes of TANF. It creates an

opportunity to explore new program designs for improved job retention and to extend TANF opportunities and study the impacts on families that access the supports services and non-cash assistance programs. In Connecticut, the Excess MOE has provided a buffer of 6% to 7% toward WPR since 2010, and has also allowed Connecticut to take risks in adjusting our TANF Jobs First Employment Services program design and delivery. For example, it allows time to study the impacts, determine success, continue with the modified program or return to the former program design if we begin to view dips in the monthly rate. The Excess MOE is also used as a leveraging tool for states during budget decisions as it demonstrates the commitment of the federal government for continued investment of state dollars to serve low-income families and meet the goals and intent of TANF. It provides a means of finding ways to maximize the efficiency of the TANF dollar when state revenues and federal funding are being carefully allocated.

Since October of 2010, Connecticut's monthly Work Participation Rate has exceeded 50% without before factoring in Caseload Reduction Credit or Excess MOE credit. However, because the rate is dependent on so many factors including families' access to jobs, education, transportation and other supports, we are pleased to know that the states' additional investment in Excess MOE may assist us if our rate begins to drop.

In Connecticut, we are moving forward with contextualized education and job training courses in manufacturing, health care and other fields to more fully support clients in obtaining jobs, completing their high school diploma and maintain career paths with the skills and tools that address business and employer needs. We are also redesigning levels of case management to address the differing needs of clients from the hardest to serve to those that are more recently unemployed or have exhausted the maximum unemployment compensation. The state's unemployment rate dropped below 8% in February of this year and as of this week will impact over 9,000 people who have reached the

maximum of 73 weeks of unemployment, and will no longer collect benefits. Some of these unemployed persons will access TANF Cash Assistance and TANF support programs as their assets are depleted in this still struggling economy.

In the recent past, Connecticut, like many states, extended its programming using the TANF Emergency Contingency Funds, with reimbursement funding for several quarters. We targeted our efforts predominantly for Subsidized Employment and Non-Recurrent Short-Term Benefits. Our TANF Caseload had not increased significantly so a smaller amount of ECF funding qualified as Cash Assistance reimbursement. Connecticut used the opportunity provided by TANF ECF to leverage additional funds and resources to serve TANF eligible families throughout the state. Private foundation funding and third party programs were integral to the expansion of TANF services for the ECF program during the past few years. We were able to reach approximately 36,000 families from July to September 2010.

State human services agencies, including Connecticut, implore Congress to use TANF Reauthorization as a vehicle for either redesigning TANF's performance measures or bolstering the current structure in a way that is fair for states, informative for federal partners, and transparent in a way that allows for ongoing discussion and improvement.

Current TANF program features, such as the Excess Maintenance of Effort (XMOE) and the Caseload Credit Reduction, should continue for states. Destabilizing these features when states are forced with increasingly difficult budgetary decisions will further complicate an already difficult task.

Connecticut, like many states, was hit hard by a national recession that resulted in instability in the job and housing markets. State TANF agencies continue to work towards helping families with complicated needs prepare for life in the workplace and transition from assistance to employment; this is the primary goal of all state TANF agencies. Yet

with the ongoing difficulty in placing traditional TANF clients in what jobs are available in the current economy, compounded with the new clients many are seeing come in having exhausted their Unemployment Insurance or other means of unemployment support, the need for relief in the form of the caseload reduction credit is quite real.

I believe that Congress, the Department of Health and Human Services, and the states, all desire similar results from the TANF program; the same results that were set out in 1996 with Welfare Reform; to move extremely low income or no income families from a position of requiring ongoing state and federal financial assistance and onto a self-sustaining and stable path based upon employment and earnings.

I hope that this testimony has been informative to this Committee. I look forward to any questions you may have.

Chairman DAVIS. Dr. Pavetti.

**STATEMENT OF LADONNA PAVETTI, PH.D., VICE PRESIDENT
FOR FAMILY INCOME SUPPORT POLICY, CENTER ON BUDGET
AND POLICY PRIORITIES**

Ms. PAVETTI. Good afternoon, Chairman Davis, Ranking Member Doggett, and distinguished Members of the Subcommittee. Thank you for inviting me to testify today.

The key point I would like to make today is that States rely on excess MOE to meet their work rate because of the work rate's flaws. If the work rate was replaced with a new measure that fo-

cused on what States achieve through their TANF work programs, the excess MOE issues related to meeting the work rates would largely disappear.

States didn't begin to use excess MOE to help to meet their work rate until after the passage of the Deficit Reduction Act, which included changes that made it harder for States to meet the rate. One important change was moving the base year for the caseload reduction credit from 1995 to 2005. This matters because as you can see in figure 2 on this screen, by 2005, States had already reduced their TANF caseloads far below their prereform levels.

For every 100 families in poverty in 2005, states served just 35 families in their TANF programs, down from 68 families in 1996.

In 2009, just eight States met their 50 percent work rate without any caseload reduction credit. That is either from reducing their TANF caseload or from claiming excess MOE. Comparing them to two larger States with much lower work participation rates, Washington and California, shows that the work rate fails to adequately measure whether States are meeting the primary goal of welfare reform, increasing the employment among participants while providing a safety net for families unable to work.

As you can see in figure 3, Washington has done quite well at getting single mothers employed. In 2009, two-thirds of single mothers were employed, a higher share than in 38 of the 50 States. Yet its performance on the work rate does not paint the same picture of success. In 2009, the State achieved a work rate of just 23 percent. Without the help of an excess MOE claim, it would not have met its work rate.

California was one of five States that failed to meet its work rate in 2009 even with an excess MOE claim. Yet the State's low work rate obscures its success. Even with the State's unemployment rate at 11.4 percent, 60 percent of single mothers were employed. In 2009, almost 90,000 TANF recipients met their work requirements, and that was an increase of 40,000 recipients from 2005, a measure of success by just about any standard except the TANF work rate.

As figure 4 shows, what is even more telling is that for every 100 single mothers in California who were unemployed in 2009, there were 13 TANF recipients, who met their work requirement. This ratio was the second highest in the country, and higher than the States that achieved a 50 percent work rate.

Mississippi shows the other side of the story. Mississippi achieved the highest work rate of 61 percent in 2009, but its employment rate among single mothers was among the 10 lowest in the country. And for every 100 unemployed single mothers, there were just 4 TANF recipients who met their work requirement.

Moreover, Mississippi was able to achieve a high work rate because it served few families in its TANF programs. As figure 5 shows, for every 100 Mississippi families in poverty, only 10 received any TANF cash assistance, compared to 66 in California and 49 in Washington.

The weakening of the cash safety net for families has resulted in increased numbers of children living in deep poverty, and has removed the safety net from the most vulnerable families who have the most to gain with the help that TANF can provide, those that

have physical or mental health issues, and those caring for a sick or disabled child.

The work rate is so terribly flawed that reconsideration of it should be central to any TANF reauthorization discussion. In the interim, I offer two changes to include in a TANF extension that would begin to refocus State aid efforts on what matters: getting TANF recipients employed.

First, allow States to count individuals that leave TANF for work in their work rate for up to 12 months; and second, ask HHS to initiate a demonstration project to encourage States to develop and hold themselves accountable for alternative performance measures that focus on outcomes.

Now, I would like to make a few statements about third-party MOE, which I believe is a significant problem. States have found ways to withdraw State funds from programs and services that had been supported with TANF MOE funds and still meet their MOE requirement by identifying this third-party MOE.

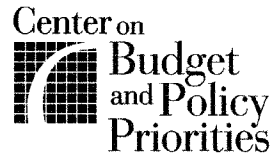
Importantly, this practice is not limited to States that report excess MOE expenditures. Some States have identified third-party spending and have used this spending simply to meet, not to exceed, their MOE requirement. This is not what Congress intended, and this practice should be stopped.

These are hard economic times, and many families are struggling, and there are two actions—and I am going just do those quickly and end—that Congress should also consider that are related to MOE. One is redesigning the contingency fund, which has very complicated excess MOE provisions and makes it difficult for States to meet, and the other is funding the TANF supplemental grants, which has taken money out of State programs that really they need to be able to meet those requirements.

With that, I will stop and take any questions that you might have.

Chairman DAVIS. Thank you very much, Doctor, for that.

[The prepared statement of Ms. Pavetti follows:]



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May 17, 2012

**TESTIMONY OF LADONNA PAVETTI, PH.D.
VICE PRESIDENT, FAMILY INCOME SUPPORT POLICY,
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE,
SUBCOMMITTEE ON HUMAN RESOURCES, HEARING ON
"STATE TANF SPENDING AND ITS IMPACT ON WORK REQUIREMENTS"**

Good afternoon Chairman Davis, Ranking Member Doggett, and distinguished members of the Subcommittee. Thank you for inviting me to testify on the relationship between TANF State maintenance-of-effort (MOE) requirements and their interaction with work requirements.

I am Vice President for Family Income Support Policy at the Center on Budget and Policy Priorities. Prior to coming to the Center two and a half years ago, I spent 16 years studying welfare programs, including the implementation of welfare reform since its inception. I have done significant work documenting how states have implemented TANF work requirements, including how they responded to the changes enacted through the Deficit Reduction Act (DRA) of 2005.

After providing some background on the topic of today's hearing, I will focus my testimony on three key points:

- First, excess MOE, which states have used to help meet their TANF Work Participation Requirement (WPR), is a symptom of a much larger problem – the failure of the TANF WPR to adequately measure states' commitment to and success in helping TANF recipients, most of whom are single mothers, find and maintain employment.
- Second, two key problems related to MOE – third-party non-governmental MOE spending and the 100 percent MOE requirement required to access the Contingency Fund — are unrelated to TANF work requirements, but also are important to address.
- Finally, the erosion of the TANF block grant and cuts in TANF and other human service funding are making it increasingly difficult for states to help unemployed individuals find work and to provide a safety net for those unable to work. Expectations for states need to be consistent with what they can do with the resources they have available.

Background

Congress established the TANF Work Participation Rate (WPR) as part of the 1996 welfare law to ensure that states focus their cash assistance programs on helping recipients obtain work. The WPR measures the share of a state's TANF households containing a "work-eligible individual" who participates in assigned work activities for the required number of hours (20 per week for families with a child under age 6 and 30 per week for everyone else). The rate is driven by its two components: (1) the number of TANF recipients who meet their work participation requirement and (2) the number of families served in the state's TANF program. While there is some variation in how states structure their work programs, there is far more variation in who is served by TANF in the first place.

States are required to meet a 50 percent WPR for all families and a 90 percent WPR for two-parent families, but they can lower that target work rate by earning a "caseload reduction credit." This credit can come from two sources: (1) reducing the state's TANF caseload below its 2005 level and (2) "excess MOE," or spending more state dollars on TANF-related services than the program's MOE requirement stipulates.¹ (The Department of Health and Human Services has devised a formula that it uses to translate the excess MOE into the number of cases by which the state can lower its current caseload. This reduced caseload is then compared to the state's 2005 caseload for purposes of determining how much the caseload has "declined" since 2005.) A state's WPR is reduced one percentage point for each percentage-point decline in its caseload below the 2005 level.

The caseload reduction credit was a response to a flaw in the WPR. Without the caseload reduction credit, states that kept working recipients on the caseload would have been rewarded while those that helped people leave welfare through work would have been penalized. The idea behind providing states with credit for spending more than was required was that states should not be penalized for serving additional families with non-required funds.

Unfortunately, neither has ever worked as intended.

- States that reduce their caseloads below their 2005 level get credit regardless of whether the recipients who leave TANF find employment. Studies conducted in the early years of welfare reform found that only about half of the recipients who left the TANF rolls did so for work.² Although more recent data are not available, we know from recent national studies that the number of families living in extreme poverty has increased, largely because TANF serves substantially fewer families now than at the start of welfare reform.³
- Similarly, it appears that some states that claim excess MOE have done so *not* by increasing their

¹ This provision is allowed under a 1999 regulation.

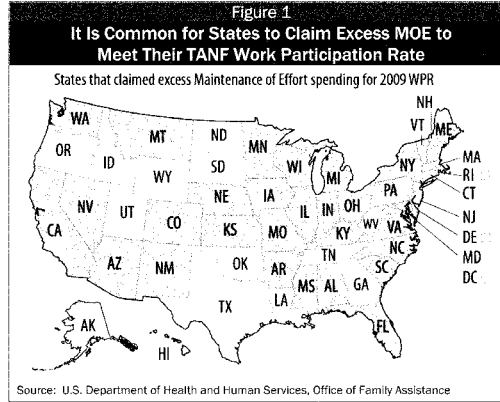
² Gregory Aes and Pamela J. Loprest, *TANF Caseload Composition and Leavers Synthesis Report*. Washington, D.C.: The Urban Institute, March 28, 2007, <http://www.urban.org/publications/411553.html>.

³ H. Luke Shaefer and Kathryn Edin, *Extreme Poverty in the United States*. National Poverty Center Policy Brief, February 2012, http://npc.umich.edu/publications/policy_briefs/brief28/policybrief28.pdf.

state contributions to activities designed to help TANF recipients find and maintain work or by serving more recipients, but instead by claiming existing (but previously unreported) governmental and third-party, non-governmental spending that meets one of TANF's four purposes as MOE spending.

Excess MOE Issue Largely Reflects Flaws in Work Participation Rate

In federal fiscal year 2009 (the most current year available), 37 states claimed a caseload reduction credit on the basis of excess MOE. (See Figure 1.) Two of the 37 states achieved a work rate above 50 percent even before taking the excess MOE credit into account (and therefore didn't need to use the credit); five states failed to meet the 50 percent WPR even after receiving credit. This leaves 30 states that may have met their WPR at least in part through excess MOE.



While states have had the option of claiming excess MOE to help meet their WPR since 1999, they did not begin to adopt the strategy until after the passage of the Deficit Reduction Act (DRA) of 2005. The DRA changed the comparison year for the caseload reduction credit from 1995 to 2005, expanded the TANF cases subject to the work requirement and instructed HHS to develop standardized definitions for work activities. These changes made the WPR harder for states to meet and further exposed its flaws as a performance measure. By 2005, states had already reduced their TANF caseloads far below where they were at the start of welfare reform – and employment among single mothers was already substantially above employment for married mothers and single women without children. In 2005, for every 100 families in poverty, states served just 35 families in their TANF programs, down from 68 families in 1996. (See Figure 2.)

What matters to individual families and to society as a whole is whether states help TANF recipients and other TANF-eligible parents find employment — not the process through which they achieve this. Yet, process is what the WPR measures. The WPR is overly prescriptive, requiring states to use the same employment strategies in rural North Dakota and in the inner city of Los Angeles. Because it is far easier for states to manipulate *who* is counted in the WPR than who meets

the work participation standard, states are rewarded for serving the families most capable of meeting the work participation standard, not for serving those who could most benefit from the assistance TANF can provide. The end result is that the most vulnerable families are left without a safety net and the help they need to make progress towards becoming self-sufficient. This is not what welfare reform intended, nor will it help us make progress in increasing employment among single parents even more.

Thus, the problem we need to address first and foremost is the failed design of the WPR. If the WPR were replaced with a new performance measure that captures employment outcomes, the excess MOE issues related to meeting the WPR would disappear.

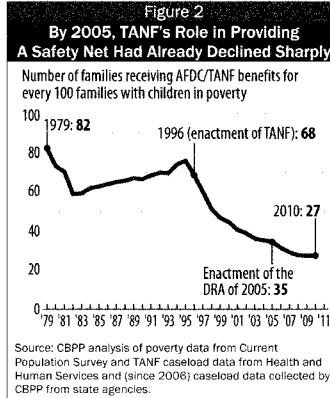
Work Participation Rate Fails to Measure Success in Increasing Employment

In fiscal year 2009, eight states — Georgia, Idaho, Mississippi, Montana, Nebraska, North Dakota, South Dakota, and Wyoming — achieved a work participation rate of 50 percent or more, so they met the WPR target without needing any caseload reduction credit (either from reducing their TANF caseload or from claiming excess MOE). These states are held up as models that the WPR is achievable. It is notable that, except for Georgia, these states are all small, very rural states with small TANF caseloads.

The important question, however, is whether these states are models of what we actually want a TANF program to achieve. In other words, are states that achieve a high work rate effective in helping low-income single mothers succeed in the labor market? Do they provide an adequate safety net to the most disadvantaged? To try to answer these questions, I suggest looking at three different measures: (1) the share of single mothers (whether or not they are on TANF) who are employed; (2) the ratio of the number of TANF recipients engaged in work activities to the number of *unemployed* single mothers in the state; and (3) the ratio of the number of TANF cases to the number of families in poverty.

By these measures, this group of states does not stand out. Comparing them to two much larger states that achieved far lower work participation rates — Washington State and California — shows that the WPR fails to adequately measure whether states are meeting the primary goal of welfare reform: increasing employment while providing a safety net for families unable to work.

- **Washington State.** Washington State has done quite well at getting single mothers into the labor force, even during hard economic times: in fiscal year 2009, despite the state's high overall unemployment rate (8.9 percent on average), two-thirds of single mothers were



employed – a higher employment rate than in 38 of the 50 states. (See Figure 3.) Among the eight states listed above that achieved a WPR of 50 percent or more, only three had a higher employment rate among single mothers — and all three had much lower overall unemployment rate and are significantly smaller states. Moreover, in an analysis of employment among TANF recipients in fiscal year 2007, the state found that 61 percent were employed during that year.

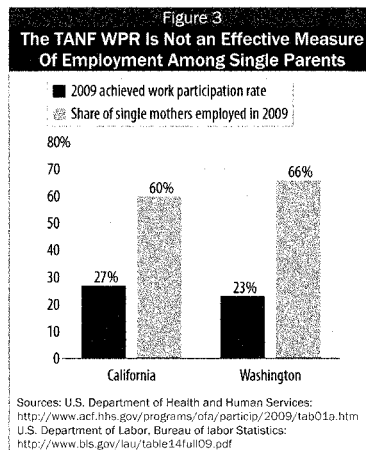
Yet Washington State's performance on the WPR does not paint the same picture of success. In 2009, the state achieved a WPR of 23 percent, meaning that about one-quarter of its TANF cases with a "work-eligible individual" participated in approved work activities for the required number of hours. Without the help of a substantial caseload reduction credit, based in part on an excess MOE claim, Washington State would not have met its WPR.

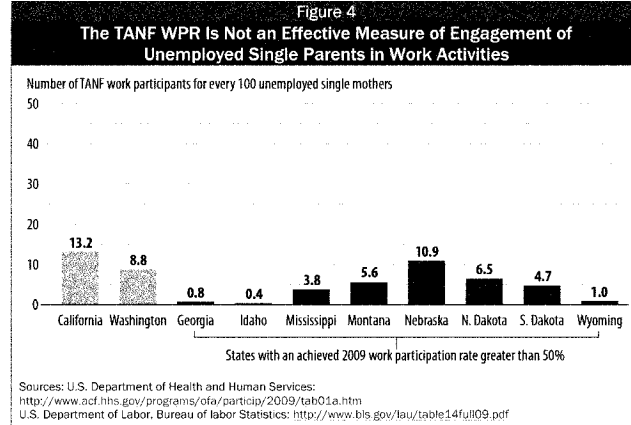
- **California.** Like Washington, California achieved a relatively low WPR in 2009: 26.8 percent. In fact, California was one of five states that failed to meet the WPR target even *with* the caseload reduction credit it received.

Yet the state's low WPR obscures its demonstrated success at engaging single mothers in work activities and getting them employed. Even with a statewide unemployment rate of 11.4 percent, in 2009, fully 60 percent of single mothers in California were employed. In 2009, California engaged almost 90,000 TANF recipients in work activities for sufficient hours to meet the work participation standard, an increase of about 40,000 recipients since 2005. In the states that achieved a work rate of 50 percent or more, only Mississippi showed an appreciable increase in the number of recipients meeting the work participation standard between 2005 and 2009. In Georgia, the number of recipients meeting the work participation standard declined by more than half, from 7,300 to 3,300.

Even more telling, for every 100 single mothers in California who were unemployed in 2009, there were ten TANF recipients who met their TANF work requirement. This ratio was the second highest in the country. Among the eight states that met their WPR without relying on the caseload reduction credit, only Nebraska had a ratio anywhere close to California's. (See Figure 4.)

The example of Mississippi, the state with the highest achieved work rate, shows the other side of the story: some states achieved high WPRs despite having relatively low employment rates among





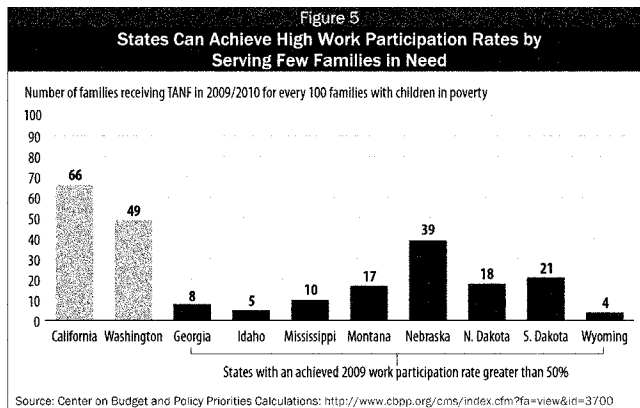
single mothers. Mississippi achieved a WPR of 61 percent in 2009, but its employment rate among single mothers (56.7 percent) was among the ten lowest in the country. For every 100 unemployed single mothers, there were just four TANF cases that met their work requirement. Moreover, Mississippi achieved its high work participation rate, at least in part, by serving very few needy families in its TANF program. In 2009, for every 100 Mississippi families in poverty, only ten received cash assistance from TANF, far below the TANF-to-poverty ratios for the country as a whole (27) and for California and Washington State (66 and 49, respectively).

Not just in Mississippi, but in all eight states that achieved a WPR of 50 percent or more, TANF provides a very weak safety net for families in need. (See Figure 5.) Georgia, the only large state in this group, serves just eight families in its TANF program for every 100 in poverty, down from 82 at the start of welfare reform. This weakening of the cash safety net for families has contributed to significant increases in the number of children living in deeply poor families and has removed the safety net from the families with the greatest needs — those that have physical or mental health issues and those caring for a sick or disabled child. These families are among the most vulnerable and also have the most to gain from the services that TANF is supposed to provide.

Biggest MOE Problems Are Unrelated to the Work Participation Rate

Third-Party Non-Governmental Spending

The most significant problem associated with MOE is not directly related to the use of excess MOE to meet the WPR. Instead, it concerns *what* spending states count as MOE, whether to meet their regular MOE requirement or to report as excess MOE. In particular, states have combed their



budgets for state expenditures that meet one of the four purposes of TANF that they can claim as MOE. In addition, they have found ways to *withdraw* a significant amount of state funds from programs and services that had been supported with TANF or MOE funds and still meet their MOE requirement by identifying “third-party” (i.e., non-governmental) MOE, such as spending by food banks or domestic violence shelters on TANF-eligible families.

States’ increasing aggressiveness in claiming existing governmental or third-party spending as MOE is the main reason why total MOE claimed by states, which remained fairly consistent at \$10-\$11 billion per year in TANF’s early years, rose to more than \$15 billion by 2009. A number of states have reported spending substantially more than the minimum MOE required in recent years.

The practice of using third-party MOE is not limited to states that report excess MOE expenditures. Some states have identified significant existing state or third-party spending and have used this spending simply to meet — not to exceed — their MOE requirement.

A state that withdraws TANF/MOE money from various programs and identifies other state spending or third-party spending as MOE might appear to be holding TANF/MOE spending steady or even increasing it, though in reality it has significantly reduced TANF programs and services. One dramatic example comes from Georgia, where third-party MOE now represents nearly half of the MOE reported by the state, an increase of 20 percent since 2010, during the same period that the state has cut spending on other TANF-related benefits and services.⁴

⁴ See, Clare S. Richie, “Georgia’s Decreasing TANF Funds: An Overview of the FY 2012 Allocation of TANF Funds in Georgia,” June 2011, <http://slbp.org/wp-content/uploads/2011/06/20110622a.pdf>.

Congress clearly did not intend to allow states to spend *less* on services for needy families than they did before TANF's creation by using third-party spending to replace state spending. This practice should be stopped.

Third-party spending in and of itself is not always problematic. For example, under the now-expired TANF Emergency Fund, states could be reimbursed for 80 percent of the costs of *new* spending on a narrow set of recession-related expenses. Since the state fiscal crisis sometimes made it difficult for states to come up with the 20 percent match required to access the funds, states used third-party contributions to help them meet that match, including in-kind donations from food banks, employer supervision of subsidized employees, and cash contributions from private foundations. Because states had to increase total spending compared to just before the recession, they could not use the third-party contributions to replace existing spending. This type of third-party spending contributed to the success of the Emergency Fund and should be permitted in similar circumstances.

Excess MOE and the TANF Contingency Fund

While this hearing is primarily focused on the relationship between excess MOE and work participation requirements, the MOE issue is also relevant for the Contingency Fund. Under current law, a state can access the TANF Contingency Fund if it meets a monthly economic hardship ("needy state") trigger and an MOE requirement (described below) that is more stringent than the regular TANF MOE requirement. A state that qualifies for an entire year can receive an amount worth up to 20 percent of its annual block grant and can spend Contingency Funds for any TANF purpose, though it must spend the funds during the fiscal year for which they are awarded.

Even when all states met the "needy state" economic hardship trigger during the recent recession, however, fewer than half drew on the Contingency Fund because the fund's requirements are complicated and daunting.

- To qualify for the Contingency Fund, states must spend 100 percent of their historic spending on Aid to Families with Dependent Children, a higher threshold than the regular TANF MOE requirement (which is 75 or 80 percent of historic spending, depending on whether a state met its WPR for the year). Moreover, some spending that can count toward the regular TANF MOE requirement, notably child care spending, cannot count toward the Contingency Fund MOE requirement.
- A state must not only meet the 100 percent MOE standard but also exceed it by an amount that at least matches the amount of Contingency Funds received. States that fail to do so may need to repay some of the funds received.

When queried on why they were not accessing the Contingency Fund, a number of states said they were unable or unwilling to take funding that they might need to repay. The complexity and arbitrariness of these requirements have resulted in uneven access to the fund.

Moreover, while it is reasonable to require states that receive extra federal funding to maintain at least their past level of effort, the current formula does not actually do that. Instead, a state can *reduce* its spending in programs that provide benefits and services to needy families and offset this

decline by becoming more aggressive about identifying funding to count as MOE — whether state or local government spending or third-party spending. For example, some states in recent years have identified third-party spending in local communities in order to exceed the 100 percent MOE standard and thereby qualify for the Contingency Fund even as they cut state TANF spending.

Now is an appropriate time for policymakers to redesign the Contingency Fund to address this problem. States continue to face high unemployment, and the Contingency Fund was intended to help states during times like these. A redesign should target the uses of the fund more narrowly (such as on subsidized employment) so that states use it to address increased need directly related to a weak economy. In order to receive Contingency Funds, states should also be required to increase their spending, much as they were required to do to receive funds from the TANF Emergency Fund.

Finally, any redesign should include a simpler and updated economic hardship trigger. The current triggers are an increased SNAP (food stamp) caseload relative to the mid-1990s or increased unemployment relative to recent prior years; the former is outdated and the latter penalizes states that experience a prolonged period of high (but not increasing) unemployment, even though they are the states with the greatest need. Currently, nearly every state that meets the “needy state” criteria does so only because of its increased SNAP caseload.

The Limits of TANF Funding

Providing a safety net that focuses on helping recipients to find and maintain work requires substantial resources — it costs substantially more to cover the costs of child care and transportation for TANF recipients to meet their work requirement than it costs to provide a monthly cash grant. Inadequate and declining funding for TANF, funding threats to other programs that states rely on to help TANF recipients and other low-income families (such as the Social Services Block Grant), and significant state budget shortfalls have heightened the difficulties states are already facing in providing a safety net and employment assistance to families in need.

When it was created in 1996, the federal TANF block grant was funded at \$16.5 billion per year. It has remained at that level ever since. Because it was never adjusted for inflation, federal block grant funding has lost significant value over time; states now receive 30 percent less in real (inflation-adjusted) dollars than in 1997, a year when the unemployment rate averaged 4.9 percent. The amount of state funds that states must spend to meet their MOE obligation has also remained flat since 1996, so required MOE spending levels have shrunk by 30 percent in real terms, as well.

The situation is even worse for the 17 states that previously received Supplemental Grants. Those states saw their federal TANF funds reduced by as much as 10 percent this year. The Supplemental Grants were intended, in part, to address the disadvantage that poorer states and states with high population growth would have when fixed funding is based on historical spending patterns rather than current population circumstances (but the originally designated states were never added to during the last 15 years). Now, nothing in the TANF funding formula addresses the growth in population.

The erosion and loss of TANF funds has had a pronounced impact on low-income families:

- **TANF benefit levels now cover a smaller share of recipients' basic needs.** The majority of states have increased their TANF benefit levels in nominal terms since the advent of the block grant, but not by enough to keep pace with inflation. When adjusted for inflation, benefit levels — which already were well below the poverty line in every state — have declined by 20 percent or more in 30 states since 1996. In the median state, the entire monthly TANF benefit equals only *half* of the cost of the fair market rent for a two-bedroom apartment;⁵ this is HUD's basic measure of the rental cost of a modest apartment and is the rental standard used in federal low-income housing programs.
- **Employment assistance counselors carry higher caseloads and consequently cannot provide as much help to people looking for work.** In addition to providing cash benefits, one of the core services that TANF agencies offer is employment assistance. But because staff salaries have necessarily risen as prices have increased, while block grant funding has remained frozen, TANF staffs have been cut even as need has increased, and counselors who provide employment assistance now generally carry larger caseloads than they did prior to the recession. As a result, recipients get *less* help with finding employment at the very time they need *more* assistance because of the shortage of jobs.
- **TANF-funded assistance provided to working families is weakening.** The majority of parents who leave welfare for employment earn low wages. Most states provide some supportive services, especially child care and transportation assistance, to help offset some of the costs of working that these families face. But these work-related costs increase over time, whereas states' TANF funding is frozen. As a result, the amount of TANF money spent on child care for TANF recipients and low-income working families has remained flat since fiscal year 2000, even though the cost of child care has increased considerably, rising twice as fast since 2000 as the median household income of families with children.⁶ When costs rise and funding remains flat, either families receive less assistance to offset the costs of working or fewer families receive assistance.

States are not in a position to make up for declining funds. In recent years, states have made broad and deep spending cuts to address the nearly \$600 billion in budget gaps they have faced during the economic slump. The cuts have affected all major areas of state budgets — elementary and secondary education, health care, higher education, and human services. In 2011, states implemented some of the harshest cuts in recent history for TANF recipients. A number of states cut cash assistance deeply for families that already live far below the poverty line, ended it entirely for many other families with physical or mental health issues or other challenges, or cut child care or other work-related assistance that make it harder for many poor parents fortunate enough to have jobs to keep them.

⁵ Liz Schott and Ite Finch, "TANF Benefits Are Low and Have Not Kept Pace with Inflation," Center on Budget and Policy Priorities, October 14, 2010, <http://www.cbpp.org/files/10-14-10tanf.pdf>.

⁶ National Association of Child Care Resource and Referral Agencies, *Parents and The High Cost of Child Care: 2010 Update*, NACCRRA, 2010.

These cuts are being made at a time when the need for assistance is great. Unemployment remains very high and the prospects of finding jobs, especially for people with low skills, are poor. Last month, unemployment was 8.1 percent. Over two-fifths (41.3 percent) of the 12.5 million people who are unemployed — 5.1 million people — have been looking for work for 27 weeks or longer.⁷

Recommendations

The focus of this hearing is on the interaction of State TANF MOE spending and the TANF work participation requirements, but these issues cannot be addressed without considering the larger context. Facing significant budget shortfalls, states are not in a position to significantly increase their funding for programs for needy families. That means they need to make the best possible use of the funds they have available.

The first place to look for solutions that will allow states to do this is in the design of the WPR. Eliminating the option for states to use excess MOE to help them meet their WPR will exacerbate, not solve, the problems states have encountered in trying to meet the WPR. It is very likely that states would respond to such a change by serving even fewer families in their TANF program — and would choose to serve only those that demonstrate that they are able to meet the stringent requirements, leaving even more vulnerable families without a safety net. This strategy may result in better WPRs, but it will not result in better outcomes for families — or for society as a whole.

Excess MOE is not the problem in need of a solution. It is the ineffective WPR that is in desperate need of repair — or replacement. Under the current WPR structure, states feel compelled to provide employment services to everyone, including those families they expect will leave for employment in just a short period of time. That leaves states with fewer resources to address the employment preparation needs of the families with the most significant barriers to employment. The TANF caseload today is different than the TANF caseload in 1996. The majority of single mothers nationwide are now working. To continue to make progress, we need to develop alternative pathways to work that address the needs of the single mothers who have been left behind.

Complete reconsideration of the WPR should be central to any TANF reauthorization discussions. In the interim, I offer five recommended changes that could be implemented within the current TANF structure as a part of an extension of the existing program:

- (1) **Revise the Work Participation Rate to allow states to count recipients who leave TANF for work in their WPR for 12 months.** The caseload reduction credit gives states no incentive to move TANF recipients into paid employment (as opposed to merely moving them off of TANF) and encourages states to serve fewer and fewer families in need. One short-term remedy is to allow states to include recipients that find employment and leave the TANF rolls to count in their WPR for 12 months after they leave TANF rolls. This would recognize that the primary goal of TANF work programs is to help recipients find

⁷ Chad Stone, "Statement on the April Employment Report," Center on Budget and Policy Priorities, May 4, 2012, <http://www.cbpp.org/cms/index.cfm?id=view&id=3766>.

employment that eliminates or reduces the need for cash assistance. Allowing states to count for an extended period those recipients who leave for employment would give states an incentive to place recipients in jobs that will last or to provide assistance to help them stay employed.

- (2) **Instruct HHS to initiate a demonstration project that encourages states to develop alternative performance measures that focus on employment outcomes.** There is near-universal agreement that the TANF Work Participation Rate is a flawed measure of state performance. However, we do not have an adequate knowledge base on which to decide what a new, more appropriate outcome measure should be, and we know that outcome measures can have perverse consequences, discouraging programs from serving the most disadvantaged families. A way to move forward is to allow states to propose, experiment with, and report on outcomes based on alternative measures that measure their success at increasing employment among TANF-eligible families while also providing a safety net to those in need.
- (3) **Restrict MOE to government spending by eliminating third-party spending, with possible exceptions only for new initiatives that require new spending for narrowly-defined purposes.** Some states are increasingly relying on third-party spending to meet their MOE obligation. This is clearly contrary to the intent of the MOE requirement and should be ended, with the possible exception of continuing third-party MOE that is directly related to a new spending for narrowly defined purposes. Any restrictions on or eliminating excess MOE altogether (not just third-party) should only be considered in the context of revisiting the work rate in its entirety, including what role, if any the caseload reduction credit should play in any new approach to measuring state performance and progress.
- (4) **Redesign the TANF Contingency Fund.** A number of changes are needed to make the Contingency Fund more effective. Most notably, states should be required to increase their spending in order to qualify for the fund and should be required to use the funds to address increased need directly related to a weak economy, such as providing subsidized employment opportunities to unemployed parents. At a minimum, states should be permitted to count child care spending toward the Contingency Fund MOE, as they can toward the regular TANF MOE. Also, the unemployment component of the “needy state” trigger should be redesigned so that states with continued high unemployment rates can qualify. The time to redesign the Contingency Fund is now, when it can provide much-needed help to low-income families who have been hit by the economic downturn and have not been able to find employment.
- (5) **Restore funding for the Supplemental Grants.** The loss of the Supplemental Grants dealt an especially harsh blow to the 17 states that had received them since 1996, reducing their overall federal TANF funding by as much as 10 percent. The states that received this funding are poorer states with substantial numbers of families living in poverty and deep poverty. They cannot be expected to provide the same level of assistance with less funding, especially when state budgets have been hard hit by the economic downturn.

Chairman DAVIS. With that, we will move to questions. I essentially see two questions today.

I see some opponents to reform are messing with our sound system now.

The first question that I have—I am going to put two of these together and then ask a couple of you to respond. First, is the way that we define State spending in the TANF program correct, Part 1, the right type of definition of the standard? And second, should States be able to reduce the share of adults on welfare expected to work if the State spends more than expected?

Mr. Collins, currently States can count spending by non-State third parties like charitable organizations as if that were State welfare spending. Does that policy make sense to you, and do you

think this potentially allows States to back out of their own obligations to the detriment of low-income families?

Mr. COLLINS. Chairman Davis, I have done a lot of thinking about this. It is hard for me to understand how an incentive can be created when what it ends up doing is having people stay dependent on welfare for longer periods of time. So I don't believe that it works well in the way that it is set up right now. The way we define State spending in the TANF program is incorrect.

Chairman DAVIS. Dr. Pavetti, you have said this practice of allowing third-party spending to be counted as State welfare spending, quote, "should be stopped," closed quote. Why?

Ms. PAVETTI. That is third-party MOE, because I don't think that that was what the intent was. It has allowed States to reduce State spending.

But I would like to comment on the difference with the work rate. I think there are two sides to that, and in your opening statement, you basically said States are allowed to use the excess MOE, but that doesn't make it right.

I think you can make exactly the same statement about States reducing their caseloads in order to meet the rate or to get the credit. That doesn't make it right. In the slides I showed, you can see States are not serving families in need, and they are not working, so we are not measuring the right things.

So I think it is not an issue about whether or not we want TANF recipients to go to work, it is about whether or not we are measuring whether or not they are going to work, and that is what I think the issue is.

Chairman DAVIS. I appreciate you sharing that. You know, ultimately the issue is making sure that we are measuring the right outcomes and also the process is correct.

And the question of allowing apparently excess State welfare spending to reduce work requirements, can anyone on the panel explain the logic of this provision to me? Why should we reduce work requirements just because a State spends more on TANF benefits?

Before we double back here, I would like to give a—actually Dr. Pavetti could be a staff member almost with the number of times I have seen her here. I appreciate her erudite contributions to the subcommittee over the last 18 months that I have chaired.

Mr. Palermino.

Mr. PALERMINO. What I would like to share is this, is that the complexities that we have encountered with some of the families, and some of the opportunities that we would like to provide based on the way the current rules are set up with providing, for example, more adult basic skills type of opportunities, we would like to take those risks. I think our State legislators want to work with us and want us to take some more risk to serve people that won't count towards what the work participation rate allows us to be countable.

So in taking those risks, we would like to think that if there is excess MOE, and we have accounted for that, and that excess MOE does support the purpose statements, that then if the risk we take did not come through, and we were unsuccessful, at least at that time, we would be able to still comply with the ultimate goal of the

TANF law and then also give opportunities for families that may not get it because we just didn't have that opportunity.

Chairman DAVIS. Ms. Cartledge, would you like to comment?

Ms. CARTLEDGE. Mr. Chairman, Members of the Committee, North Dakota has chosen not to use excess MOE, and it has to do with not wanting to be reliant on third parties to meet our MOE requirements. And also we wanted to be able to look at how we can help our families. We do not want to shift people, and we knew after going out and doing research, we discussed what were some of the issues families were experiencing. Like I said, mental health issues, and also health issues, and also some of the other things came up as hygiene issues.

So when we went out and did the research, it was, okay, how can we address those things to help our families get to work? And a very basic example is one of our first clients that we saw when we did a little bit of shifting of the individual had very poor hygiene. So it means that, okay, these are some of the things we are seeing. This is why they can't become employed. We need to take them by the hand and take them to the store; here is a toothbrush. We are going to take you in a bathroom and show you how to brush your teeth.

So we chose instead to go to this is how we can help our clients, because we felt that was the intent of TANF was to take them from where they are and move them into employment. And I did include several, a couple, three examples of actually how we did move some clients to employment.

So I am not really an expert on utilizing excess MOEs because we chose not to.

Chairman DAVIS. With that, thank you.

I am going to recognize Mr. Doggett for 5 minutes.

Mr. DOGGETT. Thank you very much.

Mr. Palermino, what is your feeling about what the States will do if we bar them from continued use of excess maintenance-of-effort credits?

Mr. PALERMINO. The example that I shared a few minutes ago with regard to the one clear example right now is with our families with basic skills is that if we are not allowed that flexibility to challenge ourselves or challenge our clients, then I think we may have to resort to moving those individuals out of the TANF Block Grant and make them State-only individuals. That would be the way to avoid our not being compliant in order to meet the work participation rate.

So we are very concerned as a State to meet the work participation rate. No one wants to be faced with a penalty, and Connecticut's penalty would be roughly \$13 million if we failed to meet that rate.

Mr. DOGGETT. So the most immediate effect would be to deny those individuals participation in the Federal program?

Mr. PALERMINO. These are the more hard-to-serve individuals that are receiving assistance.

Mr. DOGGETT. Yes.

Dr. Pavetti, are there features in the current regulations—if this Congress does nothing, and that seems to be one of the things that we are best at, but if we do nothing, will there be provisions in the

current regulations that will reduce the work participation requirements through special credits? In other words, even if Congress doesn't act, aren't many States likely to face higher effective work participation requirements in TANF starting this year?

Ms. PAVETTI. They are. One thing that happened was their final regulations haven't gotten fully implemented because there were "hold harmless" provisions that were implemented because of the recession, knowing that States were going to have difficulty meeting those rates.

So what will happen this year which is that excess MOE will be treated much as it was intended, which is that only the share of basic assistance will be counted. So it will be constrained. States only spend about 30 percent of their TANF dollars on basic assistance. So basically if the State spends \$100, they will only be able to use \$30 of their excess MOE spending for caseload reduction credit. So it is going to substantially reduce what they can do, and it also gets it back to what it was intended, which is that if States spent more on basic assistance, they should not be penalized for doing that. That was the idea. So if nothing happens, it will already be harder for States to meet their work rates.

Mr. DOGGETT. I gather from the chart you presented in your testimony, your response to the chairman's questions, that the real problem here is that these TANF requirements don't account for what the States are really doing to help poor mothers find jobs; basically that the current standards are too focused on the process and not enough on the results in terms of women who find jobs.

Ms. PAVETTI. Right. That is very true.

There are lots of different ways in which this is problematic. I would say the biggest problem is that it is a rate. Because it is a rate, you can manipulate the denominator, by not serving people, which is what many States have done. And the other thing is that when you see States like California that, since 2005, has increased the number of people in meeting their work participation rate by 40,000 people, but they don't meet their work rate, something is wrong. They have done a lot to engage TANF recipients in work activities. It is the rate that creates the problem.

So unless we fix it, we are always going to be measuring the wrong things, and we are not going to be necessarily helping families to move forward, which is, I think, what we all want to achieve.

Mr. DOGGETT. Thank you all very much.

I yield back, Mr. Chairman.

Chairman DAVIS. I thank you very much.

And with that, I recognize Mr. Paulsen for 5 minutes.

Mr. PAULSEN. Thank you, Mr. Chairman, also for holding the hearing. And also for all of the witnesses who took the time to be here today.

It was interesting as we heard in the testimony earlier about States that are counting third-party spending now as if it were spending towards TANF MOE, the requirements, and I am trying to get a sense, do we know how many States are, in fact, counting third-party spending in this count towards TANF? Do you have an idea, Ms. Brown? Do we have an idea of how many of the States numerically?

Ms. BROWN. Although we haven't studied the third-party spending issue, we did have a recent discussion with HHS, and our understanding is they don't know how many States, nor do they know the dollars involved.

Mr. PAULSEN. Do you think that agents just would have adequate oversight to understand State MOE spending or what States are reporting as MOE; do they have adequate oversight to determine that?

Ms. BROWN. When I talked about MOE spending, I mentioned the things that can make it effective are good design, good implementation, and good monitoring. And we have been talking a lot about design and implementation today, but monitoring is a really key part of that. HHS has some administrative reports that come in to them, but they also rely a lot on the Single Audit Act, on the single audits that are done on the programs, and our work on those audits has shown us that the quality is uneven, and they may not catch the kinds of complex policy issues that we are talking about here today.

Mr. PAULSEN. Mr. Palermino, from the association's perspective, do they have any information on how many States are using third-party spending, or how much they are counting? I did note that in a report that the Georgia Budget and Policy Institute—

Mr. PALERMINO. No. At this point there is no formal report that has been issued with regard to that specific information.

Mr. PAULSEN. Okay.

Mr. PALERMINO. Just to let you know for the record, for Connecticut, we have been using primarily State investments, and when we report on our excess MOE, we are talking about State investments and not necessarily some of the other, I think, responses that have been referenced in there, too.

When we worked with our TANF ECF, we did do, we did work with some nonprofits. There are some community-based organizations that carry out a lot of similar functions that are similar to the TANF purpose statement, so they present opportunities because we know that the State government nor the Federal Government can handle this alone. In fact, we work very closely with private foundations in order to encourage them to look at investing some of their dollars. And that was attractive, as I am sure you would expect, for them to invest private dollars when they knew they could leverage some of the Federal funds.

Mr. PAULSEN. I am just trying to get a sense, because it sounds like there is a report that Georgia Budget and Policy Institute, noting that about half of Georgia's MOE spending is from third parties. And, you know, from my perspective—now we heard the reference to at least one State counting a Girl Scout troop leader's time as State spending in the TANF program. Is that something that is sort of common knowledge out there? Has anyone else on the panel heard about that, or could anyone explain how a Girl Scout leader's volunteer time or troop time would meet TANF's purposes, program purposes?

Mr. COLLINS. The opportunities to amass this type of third-party spending is quite vast actually, particularly in organizations that deal with youth, because that particular group fits purpose 3, and it allows the TANF agency to go in and find the program, es-

establish the TANF purpose. Once you do that, the organization can sign an agreement, and once that has happened, you can then use the actual expenditures as TANF spending. In some cases you can use the volunteer hours in a similar sort of way.

So there are a number of ways to get third-party expenditures to count as TANF spending. I think the opportunities are far greater than actually what we know.

Mr. PAULSEN. So if the opportunities are far greater than what we know, I mean, do you believe or does anyone on the panel believe that we should be counting a Girl Scout troop leader's volunteer time towards excess MOE counts or spending? I mean, to me it just seems a little crazy.

Mr. COLLINS. The challenge that I have with it is until someone can show me how it directly impacts more welfare recipients going in to work and how that actually comports with the intent of TANF, then I think no, I don't think it makes a lot of sense at all actually.

Mr. PAULSEN. Right.

Mr. Chairman, if I could, just for the record, put an article or position paper that identifies the Girl Scout leader issue in—the State of Hawaii I believe was the State—into the record.

Chairman DAVIS. Without objection.

[The information follows, The Honorable Erik Paulsen:]

Girl Scouts of Hawaii¹

This is to respond to the Administration for Children and Families' questions about the FY 2010 MOE claimed for the Girl Scouts of Hawaii¹. Below, we describe the methodology and the actual costs claimed.

Methodology

45 CFR 92.24 allows a State to claim as a third-party, in-kind contribution the value of donated services. In determining the valuation of volunteer hours, the rule specifies volunteer services would be "valued at rates consistent with those ordinarily paid for similar work" in the organization. But, the rule does not indicate how to determine the value of positions, like Scout leaders, for whom there are no comparable paid positions (all Scout leaders are volunteers). In developing the methodology for counting volunteer hours for MOE, DHS initially asked ACF whether they could use the minimum wage in calculating the value of such volunteers and was informed that this would not be a reasonable methodology. When Hawaii asked what an appropriate methodology would be, we were directed to request the information from Central Office.

DHS then asked Robert Sheilbourne and Elaine Richman in OFA how to provide an actual value for the in-kind contribution of these types of general volunteers. Elaine Richman consulted with Gregory Kenyon, Grants Policy Specialist in the Division of Grants Policy, Office of Financial Services. After consultation with OMB, they offered an acceptable method for setting a value for "general" volunteer time that may not be tied to specific jobs or titles, such as students, ad hoc clerical support, and community volunteers. Since 1994, Independent Sector (www.independentsector.org) has developed an annual figure that represents an hourly rate for this sort of volunteer time. It is based on the average hourly wage for nonagricultural worker published in the annual Economic Report of the President. This figure is then increased by 12% to include fringe benefits.

So the methodology used for Girl Scouts of Hawaii volunteer hours in FY 2010 was the following:

Girl Scouts determined the total number of volunteer hours using sign-in sheets for volunteers performing typical paid positions and for general positions, counting the time of each troop leader and a co-leader engaged in Girl Scout meetings and activities. The total number of hours in comparable paid positions was multiplied by the comparable hourly wage and total "general" volunteer hours was multiplied by the Independent Sector value (\$20.85 in FY 2009, the last year available).

Girl Scouts of Hawaii does not include income information on their application, so the University of Hawaii, Center on the Family, used U.S. Census, Current Population Survey micro-data to determine the percentage of families with related children under 18 years of age below 600% of poverty in Hawaii (85.7%). Based on Department of Homeland Security (DHS) immigration studies, expenditures were reduced another 2.7% to exclude undocumented aliens.

Girl Scout of Hawaii Actual Expenditures

Direct Program Service Costs =	\$ 1,102,953
Administrative Costs =	\$ 1,444,343
209,584 volunteer hours x varied hourly wage =	\$ 4,211,814
Total Program Expenditures =	\$ 6,759,110
Adjusted for undocumented aliens =	\$ 6,567,614
Expenditures claimed for families below 600% of poverty =	\$ 5,636,158

Chairman DAVIS. And the gentleman's time has expired. I thank the gentleman.

Mr. Berg from North Dakota is recognized for 5 minutes.

Mr. BERG. Thank you, Mr. Chairman.

And thank you, Ms. Cartledge, for being here. You know, one of the things in your testimony that really jumped out at me is since 2005 where our work participation rate was 31 percent, and it has gone up to 72 percent in 2012. I mean, I just want to commend you for digging into these, each cases, and helping people. We didn't get to it, but there are some great stories at the end of your testimony

and really putting people back to work and helping them both with work as well as education.

Two quick questions, and then I have a question for Mr. Collins. The first question is why did North Dakota decide not to count this outside money? What was that thinking? Why was that decision made?

Ms. CARTLEDGE. Mr. Chairman, Members of the Committee, the reason North Dakota decided not to is we didn't want to be dependent on a third party to meet our MOE requirement or have to do like a chase to get the requirement. So we preferred to be independent and wanted to meet our requirements by using our general funds or also other means.

Mr. BERG. So it really creates more stability for the program—

Ms. CARTLEDGE. Right.

Mr. BERG [continuing]. Rather than have some third party that may be there one year and gone the next?

Ms. CARTLEDGE. Correct.

Mr. BERG. The other question was brought up today that it may be easier for small, rural States to meet the work participation requirements, and that States like North Dakota have a very weak safety net for families in need. And I guess I would just like to—I mean, how do you feel about that? To me, it seems like North Dakota has a very strong safety net. Could you respond to that?

Ms. CARTLEDGE. Yes. Mr. Chairman, Members of the Committee, North Dakota does have a strong safety net for our children. As one of the example of our TANF families, the TANF program itself has like a pre- and postprogram, so it tries to avoid the cliffhanger effect that once they become employed, they are done, they are gone.

What we did was we have the transition assistance for 6 months. We give them a smaller TANF benefit, and we keep them with supportive services. Once that ends after 6 months, then they can get additional 6 months with transportation allowance. Those are not counted as part of meeting our work requirement, as also those who go beyond the educational point.

So we are taking additional steps like the educational ladder, the career ladder, is to move people out of, further out of, poverty by giving them the educational skills to also work themselves totally off of the TANF benefits.

Mr. BERG. Thank you very much.

Mr. Collins, I have a question for you, and just to follow up on the chairman, I am having trouble with the underlying logic here if our goal is to put people back to work, and we are saying, gee, if a State spends more money, then you can have fewer people working. I mean, if we believe more money is the right program and doing the right thing, if a State has a higher maintenance of effort, it should, in fact, have more people working, not fewer.

And so to me it seems like on the fundamental core here, the incentives and consequences are somehow twisted around and backwards. Could you just help me either figure out why it is the right thing, or what the alternative should be?

Mr. COLLINS. Well, what is interesting is, you know, when the provision was created, it was in the 1990s. We have evolved. We

have gone through the deficit reduction act (DRA); things have changed. So it is a fair statement to rethink really what we are doing with this particular incentive, because it seems to be the opposite of what it is that you would want to do.

A couple of things. One, if you cannot tie it directly to more single parents moving into paid employment or participating in work activities, I am struggling with what the reward would be. That would be necessary.

And, second, to be fair, a lot of this happened because the Deficit Reduction Act created a stronger work requirement, and States found a way around it, and they used the excess MOE to do that.

I would argue that the best and safest way to guard yourself against penalties is to do what North Dakota did, engage your caseload; figure out what they are doing, where they are at, and make sure that they make progress.

And the last piece I would add to that is it is about what you can do, not what you can't do. There are 12 different work activities that people can do. If there are no paid employment opportunities right now, people need to get ready for when that opportunity comes around in the future. Sitting at home and waiting is not a strategy. Hope is not a strategy.

Mr. BERG. Thank you.

I will yield back, Mr. Chairman.

Chairman DAVIS. I thank the gentleman.

Mrs. Black is recognized for 5 minutes.

Mrs. BLACK. Thank you, Mr. Chairman.

First of all, Ms. Cartledge, I want to commend you in North Dakota for what you are doing. It seems to me that you are doing a very commonsense thing. You recognize that your role is to get people back to work and to help them to become self-sufficient, and I commend you for what you have done in going out and actually meeting with folks and figuring out why it is that they are having a hard time getting employed, and really giving them the opportunity for upward mobility.

That is truly what this is about, and it saddens me that we get to that position where States will do things to try to twist and turn and almost cover up what they are really doing, what they are putting into the program in order for it to be successful. It really does bother me.

But let me ask you, Ms. Brown, because you are the person who looks at the statistics and so on, in your testimony about the States that can count this third-party spending as if it were spending toward their maintenance of effort, do you know how many States are doing so today and how much in the third-party spending they can count in that State spending?

Ms. BROWN. The information I gave on 2009 is the most recent that we have. It is not something that you can just look at a set of data and figure it out. It requires quite a bit of calculating to determine how much of someone's caseload reduction credit is due to different factors.

Mrs. BLACK. And why is that so complicated? It would seem to me there would be categories that say, okay, here is how much the State actually puts in, dollar number; here is how much the State

gets from volunteer hours; and here is how we figure it. Is that not what gets reported, or how does it get reported?

Ms. BROWN. Well, you know, we have also gone on record about the problems with the work participation rate and don't believe that it is achieving the goals that it should be. But beyond that, that is really the primary metric that they use to gauge the success of the program. And so as the caseloads have gone down since the beginning, since welfare reform, many more funds are being devoted to other types of activities, and we don't know enough about what those are. We actually have some work ongoing right now where we are trying to figure some more of that out.

Mrs. BLACK. And I note that in the Congressional Research report on page 9 where we have the pie chart, and when I look at how the money is being used, there is 16 percent of the money that is being used in the "other" category. That is a pretty large percent, especially when you compare that to the capability of using the two-parent family formation and pregnancy prevention, which seems to me if we were looking at it from that end of making sure that people are keeping solid relationships and not getting into the situation to begin with, because obviously prevention is the best medicine there. But we have got 16 percent that is in the "other" category.

Ms. BROWN. Yes. And the tricky part about that is what we don't really know—in addition to not knowing enough about every activity is in that "other," we don't know how many people are actually getting served, and we don't know if it is effective or not.

Mrs. BLACK. So obviously the point is being made that if this program really is a temporary assistance for needy families, and we call it TANF, which we talk about as an acronym, but don't really talk about what its real mission is, that if we don't know how the dollars are being spent in order to help someone to become self-sufficient, it is hard to say that the dollars are really being spent for the mission of the program.

I want to go also to the child care category, because 17 percent of the money is being spent on child care. Is there any way that we can tell whether the folks who are using the child care and the expenditures on that are being used for parents being in school, in programs that are actually working, or do we know that?

Ms. BROWN. Well, we have done some work looking at the multiple funding streams that go into funding child care in States, and in addition to TANF and some of the Child Care Block Grants, there is also Social Service Block Grant funding. Those go into a pool to be provided for services for people who are determined eligible. And the States actually set their own specific eligibility requirements, but they are often things that are related to needing child care because you are low income and you are trying to work, or you are doing other activities that are acceptable to the State.

Mrs. BLACK. I see that I am on the yellow, which means I am going to turn red—oh, right now I turned red, so I am going to be out of time, but what I would ask is if I had the opportunity and the time to ask one more question, I would ask each of you how it is that we can fix this program, both in meeting the mission and, second, in the requirements that we should have in the reporting to make sure that what is being spent and the way it is being done

is really ultimately meeting the mission of getting people to work so they can fulfill their dreams.

So thank you for that.

Chairman DAVIS. Thank you, Mrs. Black.

The chair now recognizes Mr. Reed from New York.

Mr. REED. Well, thank you, Mr. Chairman, and I will be as kind as I can for the lady from Tennessee and go with her question to the panel first and use up some of my time to answer her question. Hope you were listening to that question. Anyone want to take a stab at that? Mr. Collins? Oh, no, Dr. Pavetti, you jumped up. Please. We haven't heard much from you today.

Ms. PAVETTI. I think the single most important thing we could do is to fix the work rate. I would just like to say I have the numbers. I looked to compare the numbers from 2005 to 2009, and Ms. Cartledge gave her rate and how it increased, but the numbers of people meeting the work rate requirement are pretty much the same. And so I think that we just don't know how to measure whether States are doing the work to get recipients to work. So I think we need to really give States the opportunity to try different ways of saying, this is what I am doing, and this is how I think I should be held accountable. So that is one thing on the work rate.

On the spending, I think that there are very detailed reports. We did—there was a report on the “other,” and I think States should be required to do more detail than they are now so that we do have a better accounting. And I think that, again, you can constrain the MOE spending without putting States at risk of not serving people because of the way it relates to the work rate.

Mr. REED. Well, thank you very much.

Mr. Collins, you wanted to offer something?

Mr. COLLINS. Yes.

My answer would be to do what North Carolina and the other eight States did that were able to meet the 50 percent work participation rate of which over 65 percent are in paid employment. Get dirty. Get in there and work with people. Get in there and build a fully comprehensive program, all 12 work activities. There are people who can work today, and there is going to be people who need help so they can work tomorrow, and we shouldn't let the one overshadow the other. Every one of them needs help, and what we should do is focus on what people can do. Now. Today.

So this isn't about work participation hours. This is not about really meeting the rate. What it is about is engaging people and making sure that their government provides a service while they are on time-limited assistance. It is called Temporary Assistance for Needy Families. It has a time limit associated with it. I think you can start to understand really what the intent of the program is, and we should not let people sit, and we should not let them wait.

I am referring to the fact that even before the DRA was passed, more than half of all TANF recipients who had a requirement for work activities had no hour in a single activity for the entire year, and I am suggesting, whether it is excess MOE or not, that we can do significantly better than that.

Clearly, there could be other reports that would shed a light as to how these credits are put together, but I think that what we are

doing is we are diverting ourselves from what I think the real work needs to be. You don't want a penalty? Build a really robust program, and it will never happen to you.

Mr. REED. I appreciate that sentiment, Mr. Collins.

Mr. Palermino, I want to direct my next inquiry to you because it is along what Mr. Collins was talking about, because when I read the testimony in preparing for today, the excess MOE issue, I know in 2008 you took a stance, or your organization may have taken a stance, that we should not repeal that, we need to continue it, encourage the State investments, spending investments and things.

Do you still feel that same way? Does your organization still feel that same way if the repeal of excess MOE was put onto the table, given what everyone is talking about here today?

Mr. PALERMINO. I think that we want to be working together to examine what the best strategies would be, and I think the work participation rate is one. I think reviewing what the purpose is, if we are going to change the purpose, and who the partners will be I think may lend itself to maybe what that decision would be.

Mr. REED. Well, I guess I am truly focusing on the excess MOE issue. You think that should continue the way it is, or is there any need to reform that?

Mr. PALERMINO. Well, we have seen some value with it, and not to the extent of some of the examples, I think, that have been used here, but I think we have seen some value with it, with giving us an opportunity to be flexible within our State, being able to—and we are not trying to move against families in getting adults in to work because ultimately they need to get a high school diploma before they can move to getting a good job, and that is some of the target populations we want to work to move there.

So if we change some of the thought process around what the true output should be, and if we recognize that we do have partners beyond just the government—now, most of our excess MOE is within the State government. We do have records and data, and we do track to make sure it fits the purpose and all that so we can report about that. But I think to the extent that there are other viable partners to work with, maybe that is a way of rethinking how we revisit what the purpose statements are and who should participate with us.

Mr. REED. I appreciate that.

My time has expired, but I just have to put on the record, Mr. Chairman, if I could have the courtesy of 30 more seconds—

Chairman DAVIS. Without objection.

Mr. REED [continuing]. The focus of the effort must be, in my opinion, to put people to work and provide an opportunity for people getting to work, not the policy initiative of encouraging folks just to spend money at the State level for the sake of making the policy initiative of spending more money. It just doesn't make any sense to me, and I echo the sentiments of my colleague from North Dakota and the chairman himself. It just seems to me counterintuitive. What we should be focusing on is getting people to work and providing them with the tools that they can go into this competitive workplace sooner than later.

And with that, I will yield back. Thank you, Mr. Chairman.

Chairman DAVIS. Thank you very much.

I would like to thank, again, all of our witnesses for joining us today. We appreciate your input. Your different perspectives have all added value to this discussion. We hope you will continue to share your thoughts.


We have discussed some opaque provisions of the TANF program, how they work, and some of the troubling consequences of how they have been used in recent years to weaken both work requirements and State spending requirements. I appreciate your help.

If Members have additional questions, they will submit them to you in writing. What we would ask is that you share your responses with us on the committee for the record so all will have access to that information.

Thank you again, and with that, the committee stands adjourned.

[Whereupon, at 4:07 p.m., the subcommittee was adjourned.]

[Submissions for the Record follow:]



American Public Human Services Association

June 6, 2012

The Honorable Geoff Davis
Chairman
Subcommittee on Human Resources
Ways and Means Committee
United States House of Representatives
Room 1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Davis:

The American Public Human Services Association (APHSA) submits this letter for the record for the hearing held on May 17, 2012, entitled "State TANF Spending and Its Impact on Work Requirements." This written submission for the record is intended to both reinforce the remarks already submitted on behalf of our organization by Peter J. Palermينو of Connecticut as well as respond to a number of points raised during the hearing.

The American Public Human Services Association is a bipartisan, nonprofit organization whose membership includes the nation's cabinet-level government human service executives from the states. APHSA also houses several affiliate organizations, whose members administer program-level operations in each state, including state TANF Directors.

First and foremost, APHSA encourages the Subcommittee to move forward with a five-year reauthorization of the TANF program. The last full reauthorization occurred over five years ago and expired last year. The Congress has extended that authorization until September 30, 2012. These short-term extensions are counterproductive and lead to uncertainty for states while prohibiting effective planning for service delivery.

As Congress has recognized, unemployment is a multifaceted problem and states need the flexibility to use TANF resources to address various issues that are the underlying components of unemployment in their jurisdictions. That flexibility coupled with reasonable means for ensuring accountability of the funds must be a part of the reauthorization.

During the Subcommittee's hearing several issues were raised that APHSA would like to address. First, on the issue of third-party spending and in-kind support being claimed for the purposes of meeting a state's maintenance of effort (MOE) requirement, we note that this practice has not only been understood to be permissible under TANF rules, but has been addressed in detail through guidance issued by the Administration for Children and Families for

claiming Emergency Contingency Funding during ARRA.¹ APhSA will be working with states to gather additional information on what portion of state spending claimed for the purpose of MOE is drawn from third-party spending or any form of in-kind support from private sources, and encourages the Subcommittee to work with us in developing this critical information before any decisions are made on the future of third-party MOE spending.

In 2010, when the TANF program was originally expected to be considered for a full reauthorization, APhSA's affiliate the National Association of State TANF Administrators (NASTA) developed an extensive set of recommendations intended to improve and strengthen TANF. The TANF administrators have recommended a number of additional possible credits beyond Caseload Reduction Credits (CRC) or Excess MOE (XMOE), such as an employment credit intended to recognize states' success in moving individuals into employment for extended periods of time or the ability to claim a special unemployment insurance credit in lieu of CRC and/or XMOE.²

Whether Congress decides to keep a modified version of the existing TANF performance measurement system or replace it with something new, there must be a recognition that the only way for individuals to find sustainable independence is through work. This is the underlying tenet on which TANF was created and continues to be at the heart of the work being done with clients. Yet, states are in agreement that TANF's performance evaluation system is problematic. The accounting for and verification of client hours has become increasingly burdensome for state TANF workforces and the data that this yields is increasingly less enlightening for the federal partners. APhSA is willing to work with the Subcommittee to develop a more workable and efficient system of performance evaluation.

TANF reauthorization should include a thorough reexamination of what states are being measured on and how. APhSA urges the Subcommittee to renew exploration of better ways to gauge states' progress not only in work engagement, but in achieving real outcomes for those served.

APhSA's policy priorities for gainful employment and independence include the following. Gainful employment and independence is one of four key outcomes APhSA has identified in its *Pathways* initiative, the Association's vision for a transformed human service system and for the outcomes such a system can help achieve.³

- Public policy must promote appropriate employment supports, economic development, employer incentives, and education and training that recognize the needs of low-income persons and assure they are on a sustainable path to economic independence.

¹ See HHS FAQ Document on the Emergency Contingency Fund section on Third Party Funds, http://www.acf.hhs.gov/programs/ofa/recovery/tanf-faq.htm#_%20id=

² NASTA, "Temporary Assistance for Needy Families: Recommendations for Reauthorization," December 2010, American Public Human Services Association

³ <http://www.aphsa.org/Policy/pathways.asp>.

- Measures that are used to hold state employment programs accountable must be based on appropriate outcomes that demonstrate genuine progress toward self-sufficiency and that fall within the purview and statutory authority of the states.
- Programs need to be aligned so that the proper combination of services and supports can be deployed on behalf of a client for the right time and the right duration. Assistance should be timely, comprehensive, targeted to each client's needs, and adjusted based on client progress and the impact of the assistance on desired outcomes.
- Governance frameworks for these programs must include collaboration within public agencies as well as transparent participation with community stakeholders, for example between public agencies and the employers and training providers in the community.
- Support programs such as food assistance, child care, health care, and housing must contribute toward employment and self-sufficiency. Assistance program policies must mitigate and ultimately remove the "cliff effect" that results from clients' success in wage progression and stability. Programs such as the Supplemental Nutrition Assistance Program (SNAP) must provide the necessary policy and administrative flexibility so that they more fully support a holistic approach to economic security and self-sufficiency.
- Public policy should continue to support state efforts to promote community and integrated employment for people with disabilities, as well as program alignment and braided funding models that enable the delivery of evidence-based employment models to individuals with disabilities.

If the TANF program is to be successful in the future, the states and the federal government need to work together as a team in addressing the problems of the unemployed or under-employed. Neither the states nor the federal government can tackle this issue alone. To that end, APHSA is ready to work with the Subcommittee and to bring the experiences and expertise of our members to bear on the problems with the current program.

On behalf of the state human service commissioners and TANF directors, APHSA thanks the Subcommittee for this opportunity to comment, and we look forward to working with you in the future.

Sincerely,



Tracy L. Wareing
Executive Director

Cc: Members of the Human Services Subcommittee



Boys and Girls Clubs of America, Brian Manderfield



**BOYS & GIRLS CLUBS
OF AMERICA**

**Comments for the record
Brian C. Manderfield, Senior Director
Government Relations
Boys & Girls Clubs of America**

**House Ways and Means Subcommittee on Human Resources
“State TANF Spending and Its Impact on Work
Requirements”**

May 29, 2012

Chairman Davis, Ranking Member Doggett, and distinguished members of the Sub-committee. Thank you for the opportunity to provide comments on the impact of State TANF spending on TANF work requirements.

I am the Senior Director, Government Relations, Boys & Girls Clubs of America, a youth development organization that serves nearly 4 Million school age children annually in some 4,000 locations.

My work of over 24 years is dedicated to helping our Clubs serve the youth in our country so each and every young person can be productive, responsible and caring citizens of our great country. For over 140 years, Clubs across America have focused on the kids who need us the most and that is exemplified by the 198 Clubs located on Native American Land and the 316 Clubs located in Public Housing across the country.

I wish to offer insight from my work with our Clubs in regard to State partnerships to serve TANF eligible youth and their families. It is estimated that nearly 65% of all youth our Clubs serve across this country meet the eligibility requirements for TANF.

Individual Clubs as well as Clubs working together in states have numerous contracts with state government and the corresponding Agencies to provide necessary and vital services to TANF eligible youth as well as support TANF eligible families.

TANF state spending requirements created during the welfare reform act of 1996, known as "Maintenance of Effort" or "MOE" as well the ability of a state to count third-party spending toward MOE requirements is of particular importance to the work of our Clubs. The positive impact on the goals of TANF when done properly can ultimately provide a model that maximizes the role third-party MOE match plays in a public – private partnership.

When states have incentives to maximize MOE with little or no regard for accountability to the validity of how that particular third-party is directly related to eligible TANF recipients and/or how the third-party spends its money, the states and our federal leadership has missed the mark.

Positive examples of how states can bring direct service providers to the table with contracts for services that require meaningful cash match towards the contracted services creates an environment of private industry investing in the goals and focus of TANF.

Example:

In one state, our Clubs are awarded a contract for afterschool services for school age children (documented as TANF eligible). This contract has a requirement for us to provide MOE. We view this partnership and this contract as a great success in carrying out the true meaning of TANF funding. Not because it feeds into excess MOE for the state to decrease Work Participation Rate (WPR) or cut out their general fund support, but because it is a solid business model for effective and efficient use of public funds.

1. The children have a quality program to attend afterschool and in the summer while their parent(s) are at work, school, job training etc. They are kept off the streets and out of trouble. High school graduation rates are improved and children are encouraged to continue their education.
2. If a 3:1 Match is agreed upon, the TANF funds put in .25 cents on the dollar. The other .75 cents is raised by the Clubs – private, non-federal funds that leverage individuals, corporations and foundations to partner to reach our most vulnerable youth and families.
3. Over 90% of the entire match is cash. Yes – real money that is going back into the communities to serve TANF youth and their families.
4. Programmatic implementation is cost effective with proven results and evidence based programs with measured outcomes.

TANF Reauthorization and the decisions that need to be made concerning WPR, Supplemental Funds, Contingency Funds, and Total Block Grant funding are crucial to the youth and families we serve. It is so important that states are given the opportunity to make these individual decisions through Block Grant funding. Your current hearings are of great importance for the future of our Clubs and the families they serve concerning Third Party and MOE. I use a simple analogy – do not throw the baby out with the bath water. Public / Private partnership and Third Party Match is an effective way to maximize limited resources and leverage non-government support...

Conclusion / Recommendations:

MOE is not just about WPR. Fix the part that is broken – impose tighter controls on extreme examples of un-related Third Party Match on un-contracted services with a state. Do not restrict MOE to government spending by eliminating third-party spending. The leveraging of private funds to maximize limited public funds is absolutely necessary to help our young people become productive, tax paying citizens.

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Center for Fiscal Equity

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

Hearing on State TANF Spending and Its Impact on Work Requirements
Thursday, May 17, 2012, 2:00 PM

By Michael G. Bindner
Center for Fiscal Equity

Chairman Davis and Ranking Member Doggett, thank you for the opportunity to submit comments on these issues. Sadly, the Center believes that welfare reform has worked exactly as intended in far too many cases and it is only recent reforms which have mitigated the harm done to marginally skilled families. The current law is in drastic need of reform, although we do not expect the current majority to propose those reforms which would actually improve the lives of our nation's economically marginal families.

The goal of using welfare reform to cut case loads and reduce budgets has led some states to cherry pick TANF participants, directing families in more need of assistance to the Social Security Disability program or other forms of assistance. This helps no one escape long term poverty. Further, lifetime benefit limits have pushed poorer women to use abortion services to preserve the economic health of their families. Poor women have been chosen to sacrifice their children for subsistence, just as ancient Israelites sacrificed their children to Baal for a good harvest. We can do better.

The work opportunities available to most TANF participants can easily be described as low wage work and, without significant resources in human development, are likely dead-end jobs. Such jobs often receive tax subsidies, such as the Earned Income Tax Credit and the payroll tax holiday. One must look askance at any programs which transfer the responsibility for providing adequate wages from the employer and the consumer to the taxpayer.

The Making Work Pay tax credit and the payroll tax holiday subsidize low wage labor where the preferred option would be a higher minimum wage, forcing employers and ultimately consumers to pay for the services they receive. Minimum wage laws are necessary because they level the playing field so that employers cannot initiate a "race to the bottom" by allowing workers to compete against each other to offer ever lower wages, often leaving families in the impossible position of having to bid well below what would otherwise be a reasonable standard of living in order to survive.

Increases to minimum wages and benefits, such as mandatory sick leave are, by far, the best incentive to get people to work. Mandatory sick leave would also help the prospects of health care reform, as parents would no longer be forced to resort to emergency room care because the doctor's office is closed during working hours, thus decreasing costs for all.

Another area that will help make work more attractive is income support for families. Such support addresses real market failure in the employment market. It is entirely appropriate to use tax benefits to assure that all families receive a decent wage.

The United States Department of Agriculture estimates that it should cost \$1,000 per month per child to provide a decent level of subsistence. The federal government could easily guarantee half of this amount using tax reform, with states providing the other half with coordinated tax benefits.

This credit would replace the earned income tax credit, the exemption for children, the current child tax credit, the mortgage interest deduction and the property tax deduction. This will lead employers to decrease base wages generally so that the average family with children and at an average income level would see no change in wage, while wages would go up for lower income families with more children and down for high income earners without children.

This shift in tax benefits is entirely paid for and it would not decrease the support provided in the tax code to the housing sector – although it would change the mix of support provided because the need for larger housing is the largest expense faced by growing families. Indeed, this reform will likely increase support for the housing sector, as there is some doubt in the community of tax analysts as to whether the home mortgage deduction impacted the purchase of housing, including second homes, by wealthier taxpayers.

One major obstacle in getting TANF recipients into the working world is the quality of skills they bring to the table. Indeed, a recent survey of the vocabulary of TANF recipients in public housing puts it below the level of the average seven year old. Not seventh grader, seven year old.

State based efforts to move TANF participants to a level of basic – or even advanced literacy – should be applauded. Indeed, provisions to not only provide remedial education to all who require it should be a mandatory part of TANF reform, not just in states that chose to.

Literacy training must also be provided to fathers if required. Indeed, to facilitate this, the restriction on benefits to intact families must be abolished. Furthermore, compensation for this training should be as rewarding as work, so participation should be compensated at the minimum wage.

In addition to the wage, participants should also receive the same Child Tax Credit as those who work, as well as the same level of health insurance, which could be offered to them as if they were employees of the education provider – thus ending the second class care they receive through the Medicaid program, as well as the need to pay benefits through large, yet underfunded, social welfare bureaucracies at the state level. Public housing should be replaced with residential training programs for both parents and children.

Program participants must be treated as adults. If they are, they can be expected to behave as such. All too often, the fiscal, welfare and immigration policy of the United States seems designed to provide a pool of low wage workers for the food service industry – from the field to the fast food counter. **While these jobs may provide some degree of upward mobility, at times they are akin to slavery.**

In the 21st Century, we can do better than that. If some products cannot be produced without what amounts to subsistence wages, than perhaps those products should not be produced at all, either at home or abroad. **It should not, indeed it must not, be the policy of the United States Government to shield consumers from paying decent wages to those who feed us.**

Establishing a decent level of income through paid remedial training, increased minimum wages and increased family support through an enhanced refundable child tax credit will also **reduce the need for poor families to resort to abortion services in the event of an unplanned pregnancy.**

Indeed, if state governments were to follow suit in increasing child tax benefits as part of coordinated tax reform, most family planning activities would be to increase, rather than prevent, pregnancy. It is my hope that this fact is not lost on the Pro-Life Community, who should score support for this plan as an essential vote in maintaining a perfect pro-life voter rating.

The Center for Fiscal Equity applauds any state which uses excess MOE credits to provide decent income and training to participants without requiring that they work in substandard jobs. We challenge those who support the current law to produce any success stories of workers who started in low wage jobs through TANF and have now entered the middle class. We expect that there are less such stories than the number of children aborted due to life-time benefit limits under this program.

Thank you again for the opportunity to present our comments. We are always available to members, staff and the general public to discuss these issues.

Contact Sheet

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**Hearing on State TANF Spending and Its Impact on Work Requirements
Thursday, May 17, 2012, 2:00 PM**

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.

Center for Law and Social Policy



Elizabeth Lower-Basch
Center for Law and Social Policy
Testimony for the Record

May 17, 2012

**Hearing on State TANF Spending
and Its Impact on Work Requirements**

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

elowerbasch@clasp.org

Mr. Chairman, Members of the Committee, thank you for the opportunity to share CLASP's views regarding the work and spending requirements that states must meet under the Temporary Assistance for Needy Families (TANF) program. CLASP develops and advocates for policies at the federal, state and local levels that improve the lives of low-income people. In particular, we focus on policies that strengthen families and create pathways to education and work.

This hearing addressed the relationship between the TANF work participation rate and the "maintenance of effort" (MOE) provision that requires states to continue to spend at least a specified fraction (75 or 80 percent) of what they had spent under Aid to Families with Dependent Children (AFDC), which was a matching grant. In particular, it focused on the "excess MOE" provision, which allows states to receive an enhanced caseload reduction credit toward the work participation rate if they spend more than the MOE requirement.

It is helpful to recognize that this particular question is one manifestation of a broader issue about accountability and incentives in the context of a block grant. TANF was designed to be a flexible block grant, with states given wide discretion in the use of federal funds as long as these uses are consistent with the four broad purposes of TANF. However, Congress wished to ensure that the programs states operated were work-focused and temporary, and therefore created the work participation rate and federal time limits. Congress also did not want TANF to be simple revenue sharing with the states, and therefore created the MOE requirement so that states would continue to invest their own funds in programs serving low-income families and could not simply substitute the federal funds for existing state spending.

Neither of these provisions has quite played out as expected when Congress created them in 1996. It is therefore appropriate for Congress to revisit these issues. But I urge this Committee to look at the full range of incentives in the TANF program, rather than to single out this one interaction. Based on the evidence of recent history, removing states' ability to claim credit for "Excess MOE" without making additional changes is unlikely to have the desired effect of encouraging states to serve a larger share of welfare recipients with work activities. However, it could well lead to more states reducing their investments in programs for low-income families.

The TANF Work Participation Rate

Since TANF was created, the primary performance measure has been the work participation rate (WPR), a measure of how successful states are at engaging adults in families receiving cash assistance in a specific list of work-related activities. States must engage at least 50 percent of adult members of families receiving assistance, and 90 percent of their two-parent families, in countable work activities for a minimum number of hours per week. States that fail to meet their WPR can lose a portion of their block grant funding.

By statute, states have their target WPR lowered to the extent that they have experienced declines in the number of families receiving TANF assistance. During the early years of TANF, caseloads dropped far more than expected, such that many states were able to meet their work participation rates entirely through the caseload reduction credit. When TANF was reauthorized as part of the Deficit Reduction Act of 2005 (DRA), Congress reset the baseline for the caseload

reduction credit. As a result, states now only receive credit for declines compared to their 2005 levels.

The DRA also added to the work participation rate families receiving assistance from programs that are funded with state dollars claimed toward the MOE requirement; previously, many states had used such programs to serve families for whom they did not believe the federally countable work activities were the most appropriate assignment. Finally, the reauthorization allowed the Administration for Children and Families to issue regulations defining each of the work activities and requiring all hours of participation to be documented. The effect of these changes was to make the work participation rate more challenging for states to achieve.

As the Government Accountability Office (GAO) has reported, states responded to these changes through a variety of strategies to increase their reported work participation rate and/or lower the required target. Many states have made extensive efforts to improve the reporting and documentation of hours of participation. However, there is little reason to believe that these efforts have in any way improved the employment services available to recipients. If anything, they have consumed large amounts of staff time that could otherwise be used to provide individualized services. For example, a Minnesota study found that employment services caseworkers spent half their time documenting participation.

Other states have improved their work participation rates by changing the population included in the denominator of the calculation. Many states have taken steps including up-front diversion, use of solely state funded programs, and full-family sanctions to remove from their caseload families with adult members who are not participating in countable activities for the required number of hours. Others have added families who are employed and countable as participating. A final common strategy to reduce the required WPR has been the use of Excess MOE. The provision allowing states to increase their caseload reduction credit in this way had been in place since the early years of TANF, but had not been widely used until after the DRA changes.

Based on this experience, there is little reason to believe that removing the Excess MOE provision would have the effect of increasing the number of low-income parents who are engaged in work activities. Particularly in this period of highly limited resources, it is simply less costly and easier for states to attempt to achieve the work participation rate by serving fewer families who need assistance, particularly those 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 work participation rate. Even the states that have maintained their commitment to both providing a cash assistance safety net and serving all TANF recipients with appropriate work activities recognize that these efforts are likely to be only minimally reflected in the work participation rate. These states therefore combine their work-focused efforts with backup strategies for ensuring that they do not become subject to WPR penalties. In these instances, Excess MOE and other strategies are not a substitute for operating a work-focused program; rather, they are the means by which states ensure that they have the flexibility to do so.

Because of the caseload reduction credit, from the first years of TANF until the DRA, the WPR was not a binding constraint upon states. Nonetheless, it sent a powerful signal to states that

TANF should be a work-focused program. This signaling effect continues. Moreover, TANF agencies have overwhelmingly internalized this mission of engaging recipients in activities leading to self-sufficiency, and would likely continue to enforce a work expectation even in the absence of any federal requirements.

The WPR measures whether states are tracking the participation of TANF recipients in countable activities. 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. States with high WPRs may have achieved them by placing hurdles to keep individuals with significant challenges out of the program. The WPR also does not measure the effectiveness of states' employment programs.

States that are willing to be held accountable for the outcomes they achieve in their programs, such as employment entry, job retention, or poverty reduction, should be given the ability to opt out of the process-focused participation rate either for the entire TANF population or for groups participating in specific programs such as career pathways initiatives. Several states are already using such measures internally to monitor the performance of contractors or county agencies, and to guide policy development. Performance measures and targets should be negotiated between the states and HHS, with adjustments for populations served and economic conditions. States taking up this option should be required to report data that demonstrate that they are not "creaming" or setting up barriers that discourage services to less employable participants.

Maintenance of Effort (MOE)

AFDC, the predecessor to TANF, was a matching program, where each dollar of state spending drew down additional federal dollars. When the TANF block grant was created and this matching relationship ended, Congress required states to continue investing their own funds in TANF and other programs serving low-income families, at 75 percent of their historic levels (rising to 80 percent if states fail to achieve the required WPRs). This provision was designed to prevent states from supplanting their own spending with federal dollars, and to preserve a floor on services to low-income families with children. State administrators also report that the MOE requirement is helpful in enabling them to avoid even deeper budget cuts in this time of fiscal retrenchment.

However, the MOE requirement has become less effective at these purposes over time, for several reasons:

- Neither the TANF block grant nor the MOE requirement has been adjusted for inflation or population growth since TANF was created in 1996. Inflation alone has eroded the purchasing power by more than 30 percent. This means that the same nominal levels of spending have significantly less purchasing power than they did when TANF was created.
- MOE funds are not limited to TANF and related services, but can be spent on a wide range of programs and services for "needy" families, with certain exceptions, such as for

generally available public education. States have the flexibility to define “needy” which is not limited to the eligibility standards used for cash assistance. Some states have used extremely broad definitions of “needy,” in one case defining it as 600 percent of the federal poverty level. In some cases, states are claiming the portion of non-means tested programs attributable to such “needy” families toward the MOE requirement.

- Some states are claiming significant non-governmental (third-party) expenditures toward the MOE requirement. This is permitted under a long-standing policy, but states have become more aggressive in seeking out such expenditures. In some cases, service providers have been told that if they do not agree to having their private funding claimed toward MOE, they are at risk of losing other government funding.

In some cases, states have used these strategies to report MOE funding far in excess of the minimum required. This has allowed them to reduce their work participation rate targets, and has also allowed them to draw down funds from the Contingency Fund and the TANF Emergency Fund, when they were available.

However, other states have used these strategies, but have not increased their total MOE spending. Instead, they have taken advantage of both third-party MOE and newly identified state spending from other agencies to meet the MOE requirement while withdrawing state funds from TANF, child care, and other programs serving low-income families. This is both an abdication of responsibility to the neediest families, and contrary to Congressional intent in creating the MOE requirement. The MOE requirement is at risk of becoming not just a “leaky bucket” but a completely cracked one. The ability to use Excess MOE to increase the caseload reduction credit is a patch on this bucket, as it strengthens the incentive to claim additional MOE rather than use it to supplant state spending. Removing this patch could cause the trickle of supplantation to grow to a flood; however, in the long run, more significant reforms are needed.

To ensure that the MOE requirement continues to have its original intent, and to ensure that resources are available to serve the neediest families, when TANF is reauthorized, Congress should adjust both the block grant and the MOE requirement for inflation. Only spending by governmental entities (including counties and other sub-state entities) should be countable. While it made sense for states to claim spending by non-governmental third parties to access the Emergency Fund, and draw down badly needed funding for programs for low-income populations, allowing this policy to continue has the potential to completely undermine the MOE requirement. Finally, a reasonable limit should also be set on the definition of “needy families” so that states may not claim expenditures on families earning well above the median income.

For a fuller discussion of CLASP’s priorities for TANF reauthorization, see:
Elizabeth Lower-Basch, *Goals for TANF Reauthorization*, CLASP, Updated January 24, 2011.
<http://www.clasp.org/admin/site/publications/files/TANF-Reauthorization-Goals.pdf>

Coalition of CA Welfare Rights Organizations

CCWRO has been advocating for impoverished families since the early 1980. Kevin Aslanian is a former welfare recipient who is now the executive director of CCWRO. CCWRO has examined the TANF program since its enactment and has witnessed a lot of impoverished families and children who have experienced severe misery due to the TANF program. The primary beneficiaries of the TANF program have been the state governments fleeing the TANF program since its enactment.

The TANF program is supposed to be the safety net for impoverished families of the United State of America. The TANF law provides that the State has to match the federal funds with at least 75% of what is known as “maintenance of effort” (MOE) money. Innocent taxpayers may think that these dollars are being used to assist the impoverished families of the United States of America. In reality this program is not a program that provides temporary assistance to needy families – it provides “Permanent Assistance to Needy States” (PANS).

Honesty would dictate that the name of the program should be changed. Dishonesty would retain the dishonest name of this program for it does not provide assistance to needy families for most part.

The evidence reveals that a mere 36% of the money is used to payments to families while the rest of the money is used for purposes other than providing assistance to needy families like Foster Care, Child Care, and primarily for State Budget Care.

Rather than looking at States manipulating the process to meet the work participation rates through caseload reduction credits scheme, Congress should look at the TANF program that is loaded with loopholes, such as considering money used for families not subject to work requirements as eligible for TANF funds for those expenditures meeting the silly requirement of “promoting job preparation, work, marriage, reducing out-of-wedlock births; and encouraging the formation of two-parent families”. States got the message loud and clear when TANF was enacted – this is all a shell game. We give you money called

“temporary assistance to needy families” and you can spend the money on “non-needy families” – hah hah hah.

And now some in Congress are appalled that States are using “case credits” to meet the so-called work participation rates. You should not be surprised at all. Congress let States know that although we call this program “temporary assistance to needy families” –blink-blink-blink- you can use it for non-needy families not subject to work requirements.

AFDC program 70% of the money was used to “payment to families”. The evidence reveals that under TANF a meager 36% of the money is used for “payment to families”.

The “Green Book” published by the House Ways and Means Committee reveals that in the AFDC program 70% of the money was used to “payment to families”. The evidence reveals that under TANF a meager 36% of the money is used for “payment to families”.

Below is a state-by-state percentage of TANF funds used by States during 2011 according to DHHS. A meager 8% of the TANF money is used for impoverished families in Arkansas. It is the worse state for the poor along with Illinois that uses only 8% of its money as payments to families. North Carolina, Michigan, Georgia, South Carolina, Idaho and Maryland use less than 20% of their TANF funds for poor families. Has Congress ever wondered what’s happening with this money? Impoverished families and children suffer while TANF money is fleeced by States and Congress acquiesces and with apparent Congressional support.

Nobody really cares about poor kids in America unless there are on 60 minutes. They do not make political contributions to Congress and do not have deep pockets. Many of their parents can’t even vote now days for they may not have a valid i.d. to vote.

**CHART # 1 – State-by-state percentage of total
TANF federal and MOE funds used for
“Payment to Families” during FY 2011**

U.S. TOTAL	36%	DIST.OF COLUMBIA	31%
ARKANSAS	8%	ALABAMA	33%
ILLINOIS	8%	MASSACHUSETTS	33%
NORTH CAROLINA	12%	VERMONT	34%
MICHIGAN	14%	UTAH	35%
GEORGIA	15%	OHIO	37%
SOUTH CAROLINA	17%	NEW YORK	37%
IDAHO	18%	OKLAHOMA	40%
MARYLAND	19%	NEVADA	40%
TEXAS	20%	WYOMING	41%
CONNECTICUT	20%	NEW MEXICO	42%
PENNSYLVANIA	21%	VIRGINIA	43%
MINNESOTA	22%	IOWA	43%
WISCONSIN	22%	WEST VIRGINIA	43%
FLORIDA	24%	TENNESSEE	43%
INDIANA	24%	DELAWARE	44%
ARIZONA	25%	KANSAS	45%
HAWAII	25%	MONTANA	45%
NEW JERSEY	25%	NEW HAMPSHIRE	56%
NEBRASKA	26%	NORTH DAKOTA	58%
RHODE ISLAND	26%	OREGON	59%
COLORADO	26%	CALIFORNIA	63%
MISSOURI	28%	KENTUCKY	65%
WASHINGTON	29%	ALASKA	70%
MISSISSIPPI	29%	SOUTH DAKOTA	73%
LOUISIANA	31%	MAINE	76%

Source: Chart #2 below

CHART # 2 - Summary of Federal TANF and State MOE Expenditures in FY 2011Source: http://www.acf.hhs.gov/programs/ofa/data/2011fin/table_b1.pdf

STATE	TOTAL ASSISTANCE AND NON-ASSISTANCE EXPENDITURES	PAYMENT TO TANF ELIGIBLE FAMILIES	NON-ASSISTANCE	PERCENTAGE OF TANF FUNDS USED FOR PAYMENTS TO FAMILIES
U.S. TOTAL	\$30,624,118,314	\$11,131,407,676	\$19,492,710,638	36%
ALABAMA	\$184,763,017	\$60,565,282	\$124,197,735	33%
ALASKA	\$66,298,196	\$46,609,347	\$19,688,849	70%
ARIZONA	\$358,556,919	\$87,968,991	\$270,587,928	25%
ARKANSAS	\$186,593,246	\$15,706,228	\$170,887,018	8%
CALIFORNIA	\$6,674,677,301	\$4,221,005,090	\$2,453,672,211	63%
COLORADO	\$318,107,617	\$82,536,581	\$235,571,036	26%
CONNECTICUT	\$482,570,156	\$98,188,216	\$384,401,940	20%
DELAWARE	\$79,324,359	\$35,223,265	\$44,101,094	44%
DIST. OF COL.	\$249,872,756	\$77,011,103	\$172,861,653	31%
FLORIDA	\$834,073,269	\$196,198,069	\$637,875,200	24%
GEORGIA	\$561,502,767	\$85,820,475	\$475,682,292	15%
HAWAII	\$317,337,786	\$77,973,976	\$239,363,810	25%
IDAHO	\$25,888,064	\$4,734,754	\$21,153,310	18%
ILLINOIS	\$1,311,050,647	\$110,592,904	\$1,200,457,743	8%
INDIANA	\$292,230,235	\$71,524,114	\$220,706,121	24%
IOWA	\$195,699,997	\$83,834,174	\$111,865,823	43%
KANSAS	\$213,316,638	\$95,559,824	\$117,756,814	45%
KENTUCKY	\$246,939,849	\$161,452,160	\$85,487,689	65%
LOUISIANA	\$276,612,891	\$84,668,911	\$191,943,980	31%
MAINE	\$129,562,449	\$98,556,141	\$31,006,308	76%
MARYLAND	\$454,564,757	\$88,468,836	\$366,095,921	19%
MASSACHUSETTS	\$1,022,055,560	\$337,075,697	\$684,979,863	33%
MICHIGAN	\$1,376,629,731	\$193,973,371	\$1,182,656,360	14%
MINNESOTA	\$434,204,017	\$94,909,659	\$339,294,358	22%
MISSISSIPPI	\$109,841,555	\$31,795,625	\$78,045,930	29%
MISSOURI	\$323,315,070	\$91,316,362	\$231,998,708	28%
MONTANA	\$44,337,665	\$19,899,386	\$24,438,279	45%

NEBRASKA	\$111,646,298	\$28,498,774	\$83,147,524	26%
NEVADA	\$118,877,591	\$47,459,687	\$71,417,904	40%
NEW HAMPSHIRE	\$78,295,365	\$43,934,489	\$34,360,876	56%
NEW JERSEY	\$1,184,254,525	\$299,963,812	\$884,290,713	25%
NEW MEXICO	\$191,736,019	\$80,928,302	\$110,807,717	42%
NEW YORK	\$4,954,204,982	\$1,847,359,998	\$3,106,844,984	37%
NORTH CAR.	\$628,657,903	\$75,160,984	\$553,496,919	12%
NORTH DAKOTA	\$34,930,739	\$20,106,911	\$14,823,828	58%
OHIO	\$1,187,487,786	\$440,127,863	\$747,359,923	37%
OKLAHOMA	\$172,633,114	\$68,386,314	\$104,246,800	40%
OREGON	\$342,589,061	\$201,496,149	\$141,092,912	59%
PENNSYLVANIA	\$943,154,587	\$201,613,205	\$741,541,382	21%
RHODE ISLAND	\$139,895,762	\$35,767,841	\$104,127,921	26%
SOUTH CAROL.	\$237,488,686	\$39,258,511	\$198,230,175	17%
SOUTH DAKOTA	\$31,084,340	\$22,669,301	\$8,415,039	73%
TENNESSEE	\$360,975,328	\$156,289,465	\$204,685,863	43%
TEXAS	\$810,494,208	\$158,860,696	\$651,633,512	20%
UTAH	\$116,358,468	\$40,456,983	\$75,901,485	35%
VERMONT	\$73,028,114	\$24,468,524	\$48,559,590	34%
VIRGINIA	\$287,626,635	\$122,953,059	\$164,673,576	43%
WASHINGTON	\$1,063,275,410	\$305,740,849	\$757,534,561	29%
WEST VIRGINIA	\$171,955,410	\$73,705,432	\$98,249,978	43%
WISCONSIN	\$576,566,670	\$127,764,803	\$448,801,867	22%
WYOMING	\$36,974,799	\$15,287,183	\$21,687,616	41%

Washington State

STATE OF WASHINGTON
DEPARTMENT OF SOCIAL AND HEALTH SERVICES
Economic Services Administration

May 31, 2012

The Honorable Geoff Davis, Chairman
Subcommittee on Human Resources
Committee on Ways and Means
U.S House of Representatives
1101 Longworth HOB
Washington, D.C. 20515

Re: May 17, 2012 Hearing on State TANF Spending and Its Impact on Work Requirements

Dear Chairman Davis:

Thank you for the opportunity to submit comments on this important matter. As you know, the Temporary Assistance for Needy Families (TANF) program was intended to provide states with the flexibility to design a program in ways they felt would best move vulnerable families on a pathway to economic self-sufficiency -- as long as states complied with the broad statutory goals and state spending was maintained at a federally mandated level. However, the federal requirements have created barriers for this state with regard to effectively utilizing limited resources that support families moving to self sufficiency.

Work Participation Requirements Lack Flexibility

The work participation requirements of TANF are not flexible, with significant limits on the types of activities that count toward meeting the work participation requirements. The narrow definition unduly restricts state level flexibility. It also hampers efforts to tailor service delivery to address the specific needs of the family.

We are seeing increasing numbers of parents who lack a basic education. Yet high school completion is not a core activity, and only 10 hours a week count toward the 30 hour requirement for single parents. For a two-parent family, this decreases to five hours per week.

As unemployment benefits are exhausted, parents are turning to TANF for relief, but the core activity for most is Job Search. For parents who have been unable to find work, requiring continued job search overlooks and crowds out the opportunity to increase their employability by other means. While they could benefit from skills training, there is little that counts toward the 30 hour weekly requirement.

Vocational education is helpful, but states are not allowed to count more than 30 percent of their work participation from parents engaged in vocational education. In addition, vocational education counts for 12 months in the lifetime of the parent while some programs take longer than one year to complete.

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We are also seeing parents who have received vocational education in the past and could benefit from it again, but cannot because of the 12 month time limit. Should a state decide that this education activity is appropriate, activity by that parent does not count toward the participation rate.

The Importance of Excess MOE

We consider the effect of excess MOE expenditures as an opportunity for the state to undertake strategies that move families toward self-sufficiency while still meeting the work participation targets.

States face increasing pressure to provide basic assistance to needy families while maintaining focus on the need to achieve self-sufficiency. When a family obtains employment and leaves the TANF program, the state cannot count that parent's hours of employment toward the work participation rate. This can create a negative incentive to keep families on TANF longer in order to receive credit for the employment hours.

We are seeing increasing numbers of families that have significant barriers to employment. We engage them in appropriate barrier removal activities but we cannot receive work participation credit for many of these activities.

Work participation requires that parents engage in work activities an average of 30 hours each week. Many parents cannot participate up to that average, so states cannot receive participation credit for less than the statutory requirement.

The effect of excess MOE expenditures is to lower work participation targets to a level that allows states to provide necessary and appropriate activities for these families that need our help.

Recommendations

As the reauthorization of TANF is considered, we offer the following recommendations:

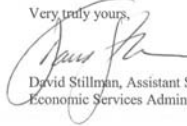
1. Continue to permit states to receive caseload reduction credit for excess MOE expenditures.
2. Allow states to receive work participation credit for families that leave TANF due to employment for one year.
3. Expand the varieties of work activities by increasing the number of core activities to include barrier removal activities. Some of these are presently classified as Job Search / Job Readiness and limited to the equivalent 6 weeks in a 12-month period.
4. Eliminate the arbitrary 10 hour limit on non-core educational activities. These activities are increasingly important and critical to many families.
5. Allow states to receive credit for part-time participation when appropriate.

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6. Allow states to receive credit for evaluation and assessment activities. Many times, these require multiple interviews and evaluations before the optimal responsibility plan is developed. States do not receive credit for the hours that parents are engaged in these activities.

Thank you again for the opportunity to provide comments on this critical topic.

Very truly yours,



David Stillman, Assistant Secretary
Economic Services Administration