

# Issue Brief for Congress

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## Welfare Reform: An Issue Overview

Updated May 17, 2002

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## Welfare Reform: An Issue Overview

### SUMMARY

The House passed the Republican leadership TANF reauthorization bill (H.R. 4737) on May 16 by a partisan vote, 229-197. The bill reflects the Bush welfare plan announced in late February and incorporates TANF provisions adopted on May 2 by the House Ways and Means and Education and the Workforce Committees (in H.R. 4090 and H.R. 4092, respectively). It also includes provisions to continue abstinence education and transitional Medicaid that were approved earlier by the Energy and Commerce Committee. Further, it provides extra entitlement child care funding (Committee bills gave no increase) and additional discretionary funding. H.R. 4737 would raise work participation requirements and increase required weekly work hours for most recipients. In response to arguments that stiffer work rules would raise child care needs, the Republican leadership added more child care funds to the final bill: over 5 years an increase of \$1 billion in appropriations for mandatory funding and an increase of \$1 billion in authorized discretionary funding. For a comparison showing how the House-passed bill and other pending bills would change the program of Temporary Assistance for Needy Families (TANF), see CRS Report RL31393.

HHS reports that work participation rates in TANF declined in FY2000, to 34% for all families. After adjustment for caseload reduction, 31 states had a required all-family work rate of zero. However, only 8 of the 34 states with 2-parent families in their TANF program met the participation standard for them, even after caseload reduction credits.

Latest TANF caseload data show that in September, enrollment in 22 jurisdictions topped year-earlier levels. The President's FY2003 budget, in accord with his welfare plan, would reauthorize TANF at the original yearly funding level (\$16.5 billion), reestablish supplemental grants (\$319 million), create a "more accessible" contingency fund (\$2 billion), replace the bonus for reducing out-of-wedlock births with grants to reduce illegitimacy and promote family formation, and provide \$135 million for abstinence-only education. The budget also proposes to restore food stamps to legal immigrants 5 years after their entry.

Enacted almost 6 years ago, as a replacement for Aid to Families with Dependent Children (AFDC), TANF provides fixed grants for time-limited and work-conditioned aid. To promote work, state programs use tougher work sanctions, "Work First" policies, financial work rewards, and diversion of applicants. Favored by a strong economy, family welfare numbers fell 53% since TANF was created, work by single mothers has soared, and poverty of mother-headed families, although still very high, has dropped.

Reauthorization issues include work requirements, funding, the role of education/training, amount of child care funding, marriage promotion, reporting rules, treatment of domestic violence victims, income supports for TANF "leavers," and the conflict between time limits and work rewards that allow workers to stay on TANF with higher earnings.

## **MOST RECENT DEVELOPMENTS**

*The House passed the Republican leadership TANF reauthorization bill (H.R. 4737) on May 16 by a partisan vote, 229 to 197. The bill reflects the Bush welfare plan announced in late February. The measure retains TANF basic funding at \$16.5 billion yearly for another 5 years, raises work participation standards, requires an average of 40 hours weekly in constructive activities (24 hours in one of six listed direct work activities). It requires states to end all cash benefits for a total failure to engage in required activities for at least two consecutive months. It authorizes new waiver authority to coordinate rules of specified programs for low-income families (but disallows transfer of program funds from one account to another) and authorizes five states to replace food stamps with food assistance block grant demonstration projects. The House-passed bill increases both mandatory and discretionary funding for child care (not requested by the Administration, but added by the House Republican leadership), extends abstinence education funding for 5 years, and extends transitional Medicaid for one year. On May 16 the Senate Finance Committee held a hearing on TANF Reauthorization: Building Stronger Families. On May 13, the President signed the farm bill, which adds \$5.7/\$5.9 billion over 10 years in new spending on food stamps (see *Food Stamps in the CRS Welfare Reform Briefing Book*.) Latest data show that in September, TANF enrollment in 21 states and Guam exceeded year-earlier levels. HHS reported on February 14 that TANF work participation rates declined in FY2000, to 34% for all families, compared with 38.3% in FY1999.*

## **BACKGROUND AND ANALYSIS**

### **Major Programs for Low-Income Families**

AFDC/TANF national enrollment has been falling since 1994, but the number of families on cash welfare rose in 22 jurisdictions during the year ended in September 2001. The September 2001 caseload held 2.103 million families, down 4% from the year-earlier number and down 59% from the March 1994 record-high level (5.084). Recipients numbered 5.343 million in September, down 6.5% from a year before. The food stamp caseload, which has been rising steadily since April, reached 18.3 million persons in November, up 8% from the year-earlier figure. The all-time peak was 28 million in March 1994.

The estimated number of children enrolled in Medicaid rose from 21.7 million in FY1999 to 21.8 million in FY2000, but the estimated number of enrolled parents fell from 9 million to 8.3 million. A TANF family must receive Medicaid only if it would qualify for AFDC if that program still existed. The EITC is the largest form of income-tested federally funded cash aid for families. The labor force participation rate of women maintaining families with children soared 21% from 1994 (62%) to 1999 (75%). In August 1999 the Council of Economic Advisers estimated that about one-third of the 1996-1998 AFDC-TANF caseload drop was due to federal and state welfare policy changes, from 8% to 10% to the strong economy, 10% to the higher minimum wage, and from 1% to 5% to the lower real value of cash welfare benefits. The 2002 CEA report says research has found that time limits alone caused more than 10% of the 1993-1999 caseload decline. FY2000 estimated spending for low-income children and their families by selected major income-tested programs that give cash, food, medical, and housing aid reached \$149.2 billion, up \$4.4

billion (3%) from FY1999 (Table 1). For overall spending on behalf of all population groups (\$437 billion in FY2000) see CRS Report RL31228.

**Table 1. Estimated Income-Tested Outlays for Children and Their Families from Selected Major Programs, FY1999 and FY2000<sup>a</sup>**

	Federal Funds (\$ in billions)		State-local Funds (\$ in billions)		Recipients <sup>b</sup> (in millions)	
	FY1999	FY2000	FY1999	FY2000	FY1999	FY2000
<b>Cash aid</b>	<b>\$44.4</b>	<b>\$44.1</b>	<b>\$7.9</b>	<b>\$7.6</b>	—	—
(TANF) <sup>c</sup>	(7.9)	(6.9)	(7.9) <sup>d</sup>	(7.6) <sup>d</sup>	7.2 <sup>e</sup>	5.8 <sup>e</sup>
(EITC) <sup>f</sup>	(31.6)	(32.3)	0	0	19.7	19.4
(SSI) (children only)	(4.9)	(4.9)	N.A.	N.A.	.85	.85
<b>Food benefits</b>	<b>26.9</b>	<b>26.6</b>	<b>1.0</b>	<b>1.0</b>	—	—
(Food stamps) <sup>g</sup>	(14.9)	(14.3)	(1.0)	(1.0)	15.2 <sup>e</sup>	14.4 <sup>e</sup>
(Subsidized meals) <sup>h</sup>	(8.0)	(8.3)	N.A.	N.A.	17.2	17.6
(WIC)	(4.0)	(4.0)	N.A.	N.A.	7.3 <sup>e</sup>	7.2 <sup>e</sup>
<b>Major medical aid</b>	<b>26.4</b>	<b>29.9</b>	<b>19.2</b>	<b>21.1</b>	32.5	33.4
(Medicaid) <sup>i</sup>	(25.5)	(28.0)	(19.2)	(21.1)	(30.7) <sup>e</sup>	(30.1) <sup>e</sup>
(S-CHIP) <sup>j</sup>	(0.9)	(1.9)	N.A.	N.A.	(2.0)	(3.3)
<b>Major housing aid</b>	<b>18.4</b>	<b>18.9</b>	<b>0</b>	<b>0</b>	4.8	4.8
(Public housing and Section 8)	(13.8)	(14.9)	0 <sup>k</sup>	0 <sup>k</sup>	(4.7)	(4.7)
(USDA programs) <sup>m</sup>	(4.6)	(4.0)	0	0	(0.1) <sup>n</sup>	(0.1) <sup>n</sup>

a. Includes administrative costs where available. Excludes education benefits, work and job training programs, Title XX social services, Child Care and Development Block Grant (CCDBG), energy aid, and numerous smaller programs.

b. *Caution:* Average monthly number of individuals, *except:* subsidized meals, estimated daily average participation in school meals and child care programs by children from lower-income families; Medicaid, *yearly total* estimates of enrollment; EITC, *yearly total* number of *families*; SSI, number of children in December; and housing, number of *households* at end of year.

c. Excludes outlays for work activities, child care, supportive services and other activities to promote TANF goals.

d. Spending countable toward the TANF maintenance-of-effort (MOE) requirement except expenditures that also could be counted toward the CCDBG MOE.

e. Includes parents. Child totals: food stamps, 10 million in FY1999, 9.4 million in FY2000; WIC, 5.6 million in FY1999, 5.4 million in FY2000; TANF, 5.3 million in FY1999, 4.3 million in FY2000; Medicaid, 21.7 million and 21.8 million, respectively.

f. Credit earned in calendar year preceding the fiscal year (example, CY1999 for FY2000). Direct payments, \$27 billion for CY1999; \$ 27.9 billion for CY2000. Reduced tax liability, \$4.6 billion and \$ 4.4 billion, respectively. FY2000 spending and recipient data are estimates.

g. Estimate. Includes Puerto Rico's nutritional assistance program. Does not include employment/training spending.

h. Estimate. Includes income-tested parts of school lunch, school breakfast, and child care food programs; also summer food service program. Excludes cost of commodities.

- i. Spending estimates are from the CBO January 2000 and January 2001 baselines. State shares are estimated at 57% of total spending.
- j. Spending estimates are based on state expenditure reports. Recipient counts represent the number of children ever enrolled during the year.
- k. Localities accept below-tax payments in lieu of property taxes on public housing projects.
- l. Based on estimated percentage of households with children: FY1999, public housing, 43%; Section 8, 68%; FY2000, public housing, 45%; Section 8, 70%.
- m. Subsidized loans to low-income persons for homeownership (Section 502) and rental aid (Sections 515/521).
- n. Represents housing units, each of which generally can accommodate one family. USDA does not collect data on children in households.

## **TANF Trends and Data**

Nationally (as of September 2001) caseloads continued a decline that began in 1995, but in half the states enrollment is on the rise. Persons now on the rolls include rising proportions of long-term recipients and minorities, and TANF “families” include a rising proportion with no adult recipient (child-only cases). TANF has more than doubled the fraction of adult recipients with earnings (from 11% in FY1996 to 28% in FY1999 and 24% in FY2000). Available data indicate that in some states from 50-65% of persons who leave the rolls have jobs then or a short time later and that the jobs generally pay wages around \$7.00 to \$8.00 per hour. *See CRS Report 98-369.* The 2000 poverty rate among children in female-headed families (no spouse present) was 39.8%, compared with 49.3% in 1996 and 52.9% in 1994, when AFDC numbers were at a record high. Combined federal/state TANF spending (excluding state child care funds countable also toward required spending to qualify for matching funds from the Child Care and Development Block Grant totaled \$22.8 billion in FY2000 (55% from federal funds), up from FY1999 (\$21.7 billion), but down 19% from comparable FY1996 spending for AFDC and related programs (\$28.2 billion). At the end of FY2000, states had an unobligated TANF balance of \$3.2 billion.

## **The 1996 Welfare Law and Changes to Date**

### **Replacement of AFDC by Temporary Assistance for Needy Families**

TANF is a fixed block grant for state-designed programs of time-limited and work-conditioned aid to families with children. Enacted on August 22, 1996 (P.L. 104-193), it repealed AFDC, Emergency Assistance for Needy Families, and the Job Opportunities and Basic Skills Training (JOBS) program and replaced them with TANF. It combines previous funding levels for the three programs into a single block (\$16.5 billion annually through FY2002) and entitles each state to a fixed annual sum based on pre-TANF funding. It also provides an average of \$2.3 billion annually in a new child care block grant. The law appropriates extra funds for loans, contingencies, bonuses for “high performance” and for reducing out-of wedlock births, and supplemental grants for states with historically low federal welfare funding per poor person and/or rapid population gain. As amended in 1997 (P.L. 105-33), TANF law also provided a \$3 billion program in FY1998-FY1999 for welfare-to-work (WtW) grants, most of which required state cost sharing, to help states achieve required work participation rates. TANF greatly enlarged state discretion in operating family welfare, and it ended the benefit entitlement of individual families. States decide what kinds of needy families to help and whether to adopt financial rewards for work. TANF explicitly allows states to administer benefits and provide services through contracts/vouchers with charitable, religious, or private organizations, a provision widely called Charitable Choice.

Attached to the TANF block grant are some federal conditions. States must achieve minimum work participation rates and maintain at least 75% of their “historic” level of state welfare funding, increased to 80% if the state fails the work participation rate. States must require parents and other caretaker recipients to engage in state-defined “work” after a maximum of 24 months of benefits and must impose a general 5-year time limit on federally-funded ongoing basic benefits. They may exempt single parents with a child under age 1 from required work (and from the calculation of work participation rates). In FY2002, 50% of all families with an adult recipient must work (including 90% of families with two parents); these rates are lowered for caseload declines from FY1995 levels. States are forbidden to give TANF aid to unwed parents under 18 unless they live under adult supervision, and, if high school dropouts, attend school. States may continue pre-TANF state reforms begun under waivers from AFDC rules even if terms are inconsistent with the new law. (*For TANF provisions, as compared to AFDC, see CRS Report 96-720*)

## Medicaid and TANF

Although the 1996 law ended AFDC, it retains AFDC eligibility limits for Medicaid use. It requires states to give Medicaid coverage to children and parents who would be eligible for AFDC cash (under July 16, 1996 terms) if AFDC still existed. For this purpose, states may lower AFDC income and resource standards to those in effect on May 1, 1988, and may increase them by the percentage rise in the consumer price index since July 16, 1996, and may change the method of determining income and resources. Through FY2002, states must extend medical assistance for 12 months to those who lose TANF eligibility because larger earnings lift their income above July 1996 limits. The House-passed TANF bill, H.R. 4737, extends transitional medicaid for one year (through Sept.30, 2003), and reduces the federal share of Medicaid administration costs. *See CRS Report RS20552.*

## Child Care

The 1996 welfare law created a mandatory block grant for child care to low-income families. Individual states are entitled to what they received for AFDC work-related child care, transitional child care, and at-risk child care in a base year. States that maintain the higher of their 1994 or 1995 spending on these programs are entitled also to extra funds at the medicaid match rate. Appropriated for the block grant was \$13.9 billion over 6 years (\$2.7 billion for FY2002, the final year). The law also authorized \$1 billion annually through FY2002 in discretionary funding under an expanded CCDBG. The combined entitlement and discretionary funding streams are referred to as the Child Care and Development Fund (CCDF). *For state CCDF programs, see CRS Report RL30919.* In discretionary funding, Congress appropriated \$2.1 billion for FY2002. The FY2003 budget requests \$4.8 billion in child care funds—\$2.1 billion in discretionary funding and \$2.7 in entitlement funding. For child care funding/spending details, see CRS Report RL31274. States may transfer some TANF funds to CCDF; in addition, they use TANF block grants for “direct” child care. FY2000 TANF-funded child care (federal and state dollars) totaled \$2.3 billion, exclusive of \$2 billion transferred to CCDF and state spending that also could be counted toward sums needed to qualify for matching child care entitlement funds. The House-passed TANF bill includes an additional \$1 billion in mandatory child care funding over 5 years and raises the discretionary authorization by \$200 million annually over 5 years, reaching the level of \$3.1 billion in FY2007.

## Alien Eligibility for Welfare

The 1996 law barred most legal immigrants from welfare benefits. It also gave states options (1) to extend TANF, Medicaid, and Title XX social services to legal immigrants who arrived before the 1996 law and (2) to extend these benefits, after their first 5 years of U.S. residence, to persons who arrived later. The 1997 Balanced Budget Act (P.L. 105-33) restored SSI for legal aliens enrolled on August 22, 1996, when the ban was passed, and those who were here then and later become disabled; and P.L. 105-185 restored food stamp eligibility for immigrant children, aged, and disabled aliens here before enactment of the 1996 law. At passage, CBO estimated that the 1996 alien provisions would reduce direct federal outlays over 7 years by \$23.7 billion, but P.L. 105-33 and P.L. 105-185 were estimated to restore more than half of this over 5 years (\$9.5 billion in SSI, \$2 billion in Medicaid and \$800 million in food stamps). See *CRS Report RL31114* for more details. noncitizens. The farm bill (P.L. 107-171) grants food stamp eligibility to noncitizens after their first five years in this country.

## Food Stamp Revisions

The 1996 law expanded states' food stamp role, added new work rules, restricted benefits, and barred eligibility for most legal aliens. At passage, net federal food stamp outlay savings over 5 years were estimated at \$23.3 billion. P.L. 105-33 provided \$1.5 billion over 5 years for work programs, and P.L. 105-18 allowed states to pay for food stamps for persons made ineligible for federally financed stamps by the 1996 law. P.L. 106-387 increased benefits for those with high shelter costs. On May 13 the President signed the farm bill, which adds \$5.7/\$5.9 billion over 10 years in new spending on food stamps (see *Food Stamps in the CRS Welfare Reform Briefing Book*). Changes include expansion of eligibility for some noncitizens.

## Social Services Block Grants

The 1996 Act reduced the \$2.8 billion entitlement ceiling for Social Services Block Grants (SSBG) under title XX of the Social Security Act by 15% and entitles states to \$2.38 billion annually in FY1997-FY2002. Congress later appropriated \$2.5 billion for FY1997, \$2.3 billion for FY1998, \$1.9 billion for FY1999, and \$1.8 billion for FY2000. Beginning in FY2001, P.L. 105-178 reduced the entitlement ceiling to \$1.7 billion. See *CRS Report 94-953*. For FY2002, Congress appropriated \$1.7 billion, the budget request, and the FY2003 budget requests the same sum. (For TANF transfers to SSBG, see *Transfer of TANF funds.*)

## TANF Reauthorization Bills

### House-Passed Bill (H.R. 4737)

**Work and Time Limit Rules.** Highlights of this 141-page measure, passed May 26, include increasing the all-family minimum participation requirement from the current 50% level to 70% by FY2007, ending the separate higher rate for 2-parent families, and requiring TANF adults to engage in work or self-sufficiency activities an average of 40 hours per week, including 24 hours in "work," defined as unsubsidized jobs, subsidized private jobs, subsidized public jobs, on-the-job training, supervised work experience, and supervised



community service. States could define any other activity as countable (for the remaining 16 weekly hours) so long as it is consistent with the purposes of TANF. Also, for 3 months within 24 months, persons could be deemed to meet the 24 hour weekly direct work requirement by engaging in activities chosen by the state, and under some circumstances, a fourth month could be credited for education. The bill replaces the fixed base year (FY1995) for the general caseload reduction credit with a moving base, but it includes a new “super-achiever” caseload reduction credit for a state whose caseload falls at least 60% from its FY1995 level (without regard to policy changes that might have lowered caseload size). The bill requires states to end cash aid to a family if the parent fails to engage in required activities for at least two months. It continues the 5-year time limit on federally paid basic assistance, along with the 20% hardship exemption. It provides a state option for TANF to be a mandatory partner with the workforce investment system.

**Child Care Funding.** The House-passed bill allows 50% of TANF funds to be transferred to the CCDBG (up from 30% in current law). Further, it appropriates \$2.917 yearly in mandatory child care funds through FY2007 (a \$1 billion increase over 5 years). It authorizes appropriation of an annual average of \$1.7 billion over 5 years for the CCDBG, with the sum rising from \$2.3 billion for FY2003 to \$3.1 billion for FY2007 (the original Bush proposal provided no child care funding increase).

**Waiver Authority.** The bill authorizes new waiver authority to coordinate rules of specified programs for low-income families (but disallows transfer of program funds from one account to another). Programs and activities covered by this waiver provision are TANF, Welfare-to-Work grants, SSBG, Job Opportunities for Low-Income Individuals (JOLI), Title I of WIA (excluding JOB Corps), Adult Education and Family Literacy Act, CCDBG, U.S. Housing Act (excepting Section 8 rental assistance and set-asides for the elderly and disabled), Homeless Assistance Act; and the food stamp program. Specified provisions (including civil rights and labor protections, existing WIA waiver limits, non-financial food stamp rules, any funding restriction in an appropriations act) could not be waived. Funds could not be transferred from one account to another, and projects could not increase federal costs. Waiver approval would be required by each relevant Secretary. The bill also authorizes five states to replace food stamps with demonstrations of food assistance block grant projects. (During committee passage of the underlying bill, a proposal to end unexpired TANF waivers on September 30, 2004 was dropped.)

**Other Provisions.** The bill establishes marriage promotion matching grants (\$100 million yearly) and allows states to use federal TANF funds as the 50% state match. It appropriates \$100 million annually for research and demonstration projects and technical assistance and specifies that these funds shall be spent primarily on activities allowed under marriage promotion grants. It establishes fatherhood projects (\$20 million authorized annually through FY2007). It ends the nonmarital birth bonus. It ends the high performance bonus, replacing it with an employment achievement bonus (\$500 million appropriated for FY2004 through FY2008). The bill makes improving child well-being the overall TANF purpose and it adds “reducing poverty” to the goal of ending dependence on government benefits. The bill also extends abstinence education funding for 5 years and extends transitional Medicaid for one year.

## Other TANF Reauthorization Bills

Eight other bills have been introduced to reauthorize TANF. Three are in the Senate (all sponsored by Democrats): S. 940 (Dodd), S. 2052 (Rockefeller), and S. 2524 (Bayh). Two House measures are sponsored by Democrats: H.R. 3133 (Mink) and H.R. 3625 (Cardin). Three other House measures are sponsored by Republicans: H.R. 4210 (Roukema), H.R. 4090 (Herger), and H.R. 4092 (McKeon). The last two measures were incorporated into the House-passed bill. Four of the five Democratic bills propose to keep a 50% work participation standard, but S. 2524 adopts the 70% standard advanced by the Bush administration. Five bills, including one Republican bill (H.R. 4210) would modify the time limit. For uniform comparisons of these bills with each other and with current law, see CRS Report RL31393.

## TANF Issues

### Definition of “Work Activities” and the Role of Education

What activities are countable in calculating a state’s work participation rate? In contrast to JOBS, which allowed credit for postsecondary education, TANF law includes only three educational activities: vocational *educational* training (12 month limit), secondary school attendance and education directly related to employment (adult high school dropouts and teen parents only). The law provides that participation in vocational educational training or completion of high school can account for no more than 30% of the persons credited with work. Although it is not a countable activity, most state TANF programs include postsecondary education, as the sharp caseload drop has cut or ended the risk of penalty for failing work participation rates. See CRS Report RL30767. All pending TANF reauthorization bills change rules about countable work activities.

### Application of Minimum Wage Laws to “Workfare”

The Clinton administration ruled that most TANF recipients in “workfare” arrangements, where recipients work for their benefit, would be classified as “employees” under the Fair Labor Standards Act and, hence, must receive the minimum wage rate (higher of the federal or state rate). In calculating a recipient’s workfare “wage,” it said the value of food stamp benefits could be counted under some work programs, but that credit could not be taken for health insurance or other benefits excluded under the FLSA. The Internal Revenue Service (IRS) said it would not exclude TANF workfare payments from federal income and employment taxes if recipients were required to participate more hours for their benefit than the minimum wage equivalent. Adult TANF recipients generally now must work an average of 30 hours weekly (20 hours if they have a child under 6). At the federal minimum wage (\$5.15), a 30-hour weekly workfare assignment equates to \$154.50 in benefits (\$669 per month); and in the 11 jurisdictions with higher state minimum wage rates, the required “workfare benefit” would be higher. Only in New York (in Suffolk County), Alaska, and Wisconsin (Community Service program), are TANF maximum benefits for a 3-person family (as of July 1, 2001) high enough to provide the required amount for 30 hours of work, at the federal minimum wage rate, by a single-parent family. Many states could observe the workfare minimum “wage” by adding food stamps to the calculation, but some

states would have to increase cash benefits. See *CRS Report 97-1038*. S. 2524 stipulates that workplace laws shall apply to TANF recipients in the same manner as to other workers.

## Work Participation Rates and Penalties

HHS reported on February 14, 2002, that work participation rates declined in FY2000 (but all states met their all-family adjusted minimum standards, as did 26 jurisdictions of the 34 with two-parent families in the TANF program). Nationally, 34% of families with an adult recipient were credited with work in FY2000 (and 48.9% of two-parent families in the caseload) by engaging in a recognized work activity for a general weekly average of 30 hours weekly. The FY2000 rates fell short of those for FY1999— 38.3% and 54.7%, respectively. In FY2000, 20 states had no two-parent families in TANF. Of these, 18 served two-parent families in separate state-funded programs, which are free of TANF minimum work targets and time limits (North Dakota restricts its program to one-parent families, and Vermont's 2000 program was operated under waiver rules.) The statutory minimum work rates for FY2000 were 40% for all families and 90% for two-parent families, but actual state targets were adjusted downward to give credit for reductions in caseload from FY1995 to FY1999. These credits reduced all-family participation standards to zero in 31 states. All jurisdictions except Guam and the Virgin Islands achieved their adjusted all-family work rate, but 8 jurisdictions failed adjusted standards for 2-parent families. For FY2000 state rates, see [<http://www.acf.dhhs.gov/programs/opre/particip/index.htm#participation>].

## “Charitable Choice,” Faith-Based Initiative, and Privatization

The 1996 welfare law permits states to “administer and provide services” under TANF, food stamps, Medicaid, and some other federal programs through contracts with (or vouchers redeemable with) charitable, religious, or private organizations. However, food stamp and Medicaid law effectively require *eligibility to be determined* by a public official. The purpose of what has come to be known as “charitable choice” is to allow religious organizations to provide services on the same basis as any other nongovernmental provider “without impairing their religious character” or diminishing the religious freedom of recipients. Since 1996, Congress has enacted other charitable choice provisions—applying them to grants under the Community Services Block Grant (1998) and to substance abuse services under the Public Health Service Act (2000). See *CRS Report RS20712*. Using its new privatization authority, Wisconsin has contracted out the administration of its TANF program (W-2) in some counties.

President Bush on January 29, 2001 established an Office of Faith-Based and Community Initiatives and directed five Cabinet departments to set up similar offices. As outlined in a White House brochure, the President's faith-based agenda includes expanding charitable choice rules to new programs, expanding private giving through tax deductions and other initiatives, setting up a Compassion Capital Fund, and piloting new partnerships between government and faith-based and community groups in providing various services. The House-passed Community Solutions Act (H.R. 7) would apply charitable choice rules to nine new program areas (Title II) and give tax incentives for charitable giving (Title I). For Title II provisions, see *CRS Report RS20948*. The General Accounting Office (GAO) on January 18, 2002 issued a study about the implementation and effect of existing charitable choice laws (GAO-02-337). Title III of S. 1924, introduced February 8, 2002, with the support of President Bush, has provisions that seek to assure equal treatment for

nongovernmental providers of virtually all social services. Congress appropriated \$30 million for FY2002 to establish a Compassion Capital Fund, and on February 26, HHS requested public comments on what factors it should consider in making awards. For charitable choice history and overview, see CRS Report RS20712. For background and legal issues, see CRS Report RL31043.

## **Welfare-to-Work (WTW) Grants**

The basic TANF block grant earmarks no funds for any program component, benefits or work programs. In response to a presidential budget proposal, the 1997 Balanced Budget Act established a \$3 billion welfare-to-work grant program for FY1998-FY1999, administered by the Secretary of Labor. It required 75% of funds (after set-asides) to be used for 33% state matching formula grants and required the remaining 25% of WtW funds to be used for competitive grants. Over the 2 years, formula grants totaled almost \$2 billion, and competitive grants, \$712 million. As of December 31, 2000, \$1.6 billion in WtW funds remained unspent; and, as requested by the President, Congress extended the WtW spending deadline (from 3 years to 5 years from the award date) in P.L. 106-554. As first enacted, 70% of funds had to be used to benefit TANF recipients (and non-custodial parents) with at least two specified barriers to work who themselves (or whose minor children) were long-term recipients (30 months of AFDC/TANF benefits) or were within 12 months of reaching a time limit. Eligibility was liberalized by P.L. 106-113. States now can help new groups: long-term TANF recipients without specified work barriers, former foster care youths 18 to 24 years old, TANF recipients who are determined by criteria of the local private industry council to have significant barriers to self-sufficiency, and non-TANF custodial parents with below-poverty income. For WtW eligibility, the 1999 law requires that noncustodial parents be unemployed, underemployed, or having difficulty paying child support and comply with a personal responsibility contract; also, their minor child must meet certain standards. *See CRS Report RS20134.*

## **Transfer of TANF Funds**

The law allows states to transfer up to 30% of TANF funds to the Child Care and Development Block Grant (CCDBG) and the Title XX social services block grant (SSBG), but sets a limit of 10% on the share that can go to SSBG. P.L. 105-200 allows states to use TANF funds, within the overall 30% transfer limit, as state matching funds for job access grants to provide transportation services to TANF recipients and ex-recipients, noncustodial parents of TANF children, and those at "risk" of becoming eligible for TANF. Cumulative SSBG transfers from TANF awards through FY1999 totaled \$6.4 billion, 13.7% of awards. During FY1999, states transferred 17% of 1999 awards (11% to CCDBG and 6% to SSBG). P.L. 105-178 cut the share of funds that could go to SSBG to 4.25%, effective in FY2001, but Congress in December restored the 10% cap for FY2001 only; and in late 2001 ( P.L. 107-116) continued it at 10% for FY2002. The House-passed TANF bill allows 50% of TANF funds to be transferred to CCDBG.

## **Victims of Domestic Violence**

The 1996 law allows states to certify in their TANF plans that they have adopted standards to screen and identify TANF recipients with a history of domestic violence, refer

them to services, and waive program requirements in some cases. The Senate several times voted to allow unlimited TANF waivers for victims of domestic violence and to disregard these persons in computing a state's work participation rate, but the House has disagreed. Regulations permit a state that has adopted the Family Violence Option (FVO) to receive "reasonable cause" exceptions to penalties for failing work and time limit rules if the state had granted domestic violence waivers that met certain standards. See CRS Report RS20662. For legislation, see S. 940/H.R. 1990, H.R. 2258, and S. 1249.

## Transportation for TANF Recipients

The 1998 transportation act (P.L. 105-178) authorized \$750 million in 50% matching funds over 5 years for matching grants for job access and reverse commute grants for welfare recipients, of which no more than \$10 million annually can be for reverse commute projects. It said funds were to be used to develop services for welfare recipients and other low-income persons (income not above 150% of the poverty level). As noted immediately above, states may use TANF funds, within limits, as state matching funds for these grants. Appropriations for FY1999 and 2000 were \$75 million annually (half the Clinton budget request). The FY2001 budget again proposed \$150 million, but Congress provided \$99.780 million (P.L. 106-346). In FY1999, the Federal Transit Administration (FTA) awarded competitive grants to 206 projects, but thereafter Congress designated many projects for funding. For FY2000, about 50% of funds were earmarked for specific projects, and for FY2001, about 75% (\$21 million was earmarked in FY2001 for five state governments). Observing that earmarking of funds prevented projects to "emerge from a competitive process," FTA proposed on May 3, 2001, to allocate all funds among the states and outlying areas, on the basis of each jurisdiction's share of low-income persons, beginning in FY2002. It requested \$125 million for that year and said a formula program would allow states to select grantees on a competitive basis and facilitate multi-year funding. For details of the proposal and information about FY1999-FY2001 awards, see [<http://www.fta.dot.gov/wtw>].

## Housing Vouchers for TANF Recipients

The President's FY1999 budget proposed tenant-based housing assistance to help eligible TANF families move to work (\$283 million, sufficient for 50,000 vouchers). Congress included these vouchers in the FY1999 HUD appropriation act (P.L. 105-276) but specified that at least \$32 million of the \$283 million total be made available for initiatives in eight specified localities. The law made sweeping changes in subsidized housing, including: Reducing the share of units reserved for very poor families in an effort to achieve an income mix; requiring housing agencies to set minimum rents (not above \$50 monthly); allowing public housing tenants to choose a flat rent or income-adjusted rent; forbidding housing agencies to increase the rent for one year of TANF recipients (or some other previously unemployed persons) who take a job; and requiring adult public housing residents, for 8 hours monthly, to participate in a self-sufficiency program or in community service. See *CRS Report 98-868*. The FY2000 and FY2001 budgets requested funding for new WtW housing vouchers, but Congress denied the requests, and subsequent budgets (including that for FY2003) have sought no new WtW housing vouchers. For a general discussion of housing for the poor, see *CRS Report RL30486*.

## Tax Credits for Hiring Welfare Recipients

In 1997, Congress established a Welfare-to-Work (WtW) Tax Credit for hiring persons who had received AFDC/TANF for 18 months. It also extended an existing credit called the Work Opportunity Tax Credit (WOTC) for hiring certain persons, including those who had received TANF for 9 months. In late 1999, Congress extended both credits retroactively and through December 31, 2001 (P.L. 106-170). See CRS Report RL30089. P.L. 106-554 added “renewal communities” to the areas where a tax credit is offered for hiring resident youth. S. 545, introduced March 15, 2001, would extend WOTC to small business employees working or living in areas of poverty. P.L. 107-147, signed March 9, includes an extension of the WtW tax credit and WOTC through December 31, 2003.

## Individual Development Accounts (IDAs)

The 1996 law permits states to use TANF funds to carry out a program of individual development accounts (IDAs) established by (or on behalf of) persons eligible for TANF, with no dollar limit. Accounts are to contain deposits from the recipient’s earnings, matched by a contributions from a not-for-profit organization, or a state or local government agency in cooperation with the organization. Withdrawals are allowed only for postsecondary educational expenses, first home purchase, and business capitalization. All means-tested programs must disregard amounts, including accruing interest, in TANF-funded IDEAS. Some states mention IDAs in their TANF plans. In 1998, Congress established a 5-year program of IDA demonstration projects (Assets for Independence Act [AIA], Title IV of P.L. 105-285) for TANF-eligible persons and certain other low-income workers. Appropriations for FY1999 and FY2000 were \$10 million each; for FY2001, \$25 million (budget request) was appropriated (P.L. 106-554), and the House has voted \$25 million for FY2002 (H.R. 3061). Announced at the end of September 2000 were second year awards of \$8.3 million for AIA demonstration projects (\$4.5 million to 25 new grantees, \$2.1 million in supplements to 14 previous grantees, and \$1.7 million to state departments in Indiana and Pennsylvania that had begun IDAs before AIA was passed). It is estimated that during the 15 months ended Dec. 31, 2000, 2,700 persons opened IDAs under the demonstration program. Generally they received a matching contribution of at least two dollars for each dollar deposited. See *CRS Report RS20534*. In passing H.R. 7 on July 19, the House voted to amend and extend the AIA program through FY2008 and to double its authorized funding (Title III), rather than to establish a new IDA program financed by income tax credits to financial institutions, as proposed by the Administration in the original bill. The President’s FY2003 budget and S. 1924 renew the proposal to create tax credits for financial institutions with individual development accounts. S. 592 contains a version of the Administration’s original IDA proposal.

## Unspent TANF Funds

As of September 30, 2000, HHS reports that states had an unspent/unobligated balance in the U.S. Treasury of \$3.2 billion in TANF funds, from FY1997-FY2000 TANF grants. Five states accounted for more than half of the total: New York, \$761 million; Minnesota, \$232 million; Ohio, \$217 million; Michigan, \$200 million; and Louisiana, \$169 million. Eleven states had no balances: Colorado, Connecticut, Delaware, Illinois, Kansas, Kentucky, Maine, Nevada, New Jersey; Pennsylvania, and South Carolina. States may draw TANF

funds from the Treasury only for reimbursement of expenditures. The law sets no fiscal year deadline for expenditure of TANF funds for “assistance,” defined as basic ongoing aid.

## **Child Support Collections**

To receive TANF, parents must assign child support rights to the state. In FY1999, child support enforcement offices collected \$6 billion assigned by TANF and former TANF families. Of this sum, \$3.8 billion was distributed to former TANF families and \$0.1 million to TANF families; most of the rest was used to repay federal and state administrative costs. The House voted last year (H.R. 4678) to require states and localities to distribute more child support to ex-welfare families (with federal funding) and to allow states to give child support collections to TANF families without having to repay the federal government for its share of the money. The bill also proposed “fatherhood” grants to promote marriage and applied Charitable Choice rules to them, but the Senate did not act on counterpart legislation. P.L. 106-553 and P.L. 106-554 appropriated \$4 million to two national organizations to promote fatherhood. The House-passed TANF bill (H.R. 4737) includes provisions to promote “responsible fatherhood” and distribute child support directly to families.

## **TANF Bonus Funds**

On September 21, 2001, HHS announced award of \$75 million in bonuses to the only jurisdictions (D.C., Alabama, and Michigan) that achieved reductions in the percentages of births to unwed women between 1996-97 and 1998-99; elsewhere non-marital birth ratios increased. On December 16, 2000, HHS announced award of the second TANF high performance bonus: \$200 million to 28 states, based on state rankings (absolute and relative) in FY1999 on work-related measures rates of job entry and success in the workforce (job retention and earnings gain). Winners ranked among the top 10 states in at least one category. Bonuses ranged from \$0.6 million in South Dakota for improvement in workforce success to \$36.1 million in California (also the top FY1998 winner) for workforce success. On August 30, 2000, HHS issued final rules for high performance bonuses, effective for awards beginning in FY2002, available at [<http://www.acf.dhhs.gov/programs/opre/hpb>]. The new rules add four non-work performance measures: “family formation and stability — percentage of children in married couple families; health insurance coverage — percentage of TANF leavers with health insurance (Medicaid or S-CHIP); food stamp coverage — enrollment percentage among households with children, earnings equal to half-time year round minimum wage (\$5,396 in 2000) and income below 130% of the poverty guideline); and child care coverage — percentage of eligibles served plus affordability.

## **LEGISLATION**

### **H.R. 7 (and identical bill, H.R. 1284) (Watts)**

Numerous social programs. Title I provides tax incentives for private giving; Title II expands charitable choice to cover 9 new program areas. Introduced March 29; referred to two committees, which made amendments. Passed House July 19, 2001. See also H.R. 3599 and S. 1924 (to promote charitable giving and for other purposes).

**H.R. 2018 (Hart)**

TANF. Allows TANF funds to be used for infant safe haven program. Introduced May 25, 2001; referred to two committees.

**H.R. 2166 (Stark)**

TANF. Child Poverty Reduction Act. Makes reduction of child poverty a TANF goal and appropriates \$150 million annually for bonuses to states that reduce poverty rates and do not increase the average “depth” of child poverty. Introduced June 13, 2001; referred to Ways and Means Committee. Senate companion: S. 1027. (Provisions are in H.R. 3625).

**H.R. 2258 (Levin)**

TANF and other programs. Allows eligibility for certain non-citizens suffering from domestic abuse. Introduced June 20, 2001; referred to several committees.

**H.R. 3113 (Mink)**

TANF reauthorization. Introduced October 12, 2001; referred to Ways and Means Committee.

**H. R. 3541 (Green of Wisconsin)**

Housing. Explicitly authorizes religious organization to participate in certain housing programs. Introduced December 19, referred to Committee on Financial Services. See also H.R. 3995.

**H.R. 3625 (Cardin)**

TANF, child support. Reauthorizes TANF and makes extensive changes. See TANF Reauthorization Bills above. Introduced January 24, 2002; referred to Ways and Means Committee.

**H.R. 3459 (Velazquez)**

TANF. Repeals 5-year time limit, repeals 5-year ban on TANF for immigrants, adjusts block grant for inflation, requires translation services for non-English speakers. Introduced December 11, referred to Ways and Means Committee.

**H.R. 3667 (Woolsey)**

TANF. Requires state TANF plans to include self-sufficiency standards and offers a bonus to states with an increase in the self-sufficiency score of leaver families. Introduced January 29, 2002, referred to Ways and Means Committee.

**H.R. 3730 (Woolsey)**

TANF. Allows 48 months of postsecondary or vocational educational training as TANF work activity. Other provisions. Introduced February 12, 2002, referred to two committees.

**H.R. 4057 (Levin)**

TANF. Replaces the caseload reduction credit with an employment credit. Introduced March 20, 2002. Companion bill: S. 2058

**H.R. 4090 (Herger)**

TANF reauthorization. Introduced April 9, 2002, referred to Ways and Means Committee. Incorporated in House-passed H.R. 4737.



**H.R. 4092 (McKeon)**

TANF, child care. Introduced April 9, referred to committees. Incorporated in House-passed H.R. 4737.

**H.R. 4236 (Acevedo-Vila)**

TANF. Makes the territories eligible for supplemental TANF grants and contingency fund. Other provisions. Introduced April 16, 2002, referred to two committees.

**H.R. 4210 (Roukema)**

TANF reauthorization. Introduced April 11, referred to Ways and Means.

**H.R. 4655 (Mrs. Maloney)**

Domestic violence. Requires States to ensure that TANF programs take action to help victims. Introduced May 2, referred to Ways and Means.

**H.R. 4737 (Pryce)**

TANF, child care, child support, abstinence education, transitional Medicaid. See TANF Reauthorization Bills in text above. Introduced May 16, passed by House May 17 (originally introduced as H.R. 4700 on May 9).

**S. 545 (Frist)**

Work Opportunity Tax Credit. Extends credit to small business employees working or living in poverty areas. Introduced March 15, 2001; referred to Finance Committee.

**S. 685 (Bayh)**

Child support, EITC, SSBG, others. Strengthening Working Families Act. Provisions include: promotion of responsible fatherhood, distribution of child support to families, expansion of EITC, restoration of SSBG ceiling. Introduced April 3, 2001; referred to Finance Committee. See also H.R. 1470, H.R. 2893 (fatherhood only), S. 916, and S. 918.

**S. 770 (Levin)**

TANF. Allows vocational educational training to be counted as a TANF work activity for 24 months. Introduced April 24, 2001; referred to Finance Committee.

**S. 940 (Dodd)**

TANF and numerous others. Leave No Child Behind Act. For TANF provisions, see TANF Reauthorization Bills above. Introduced May 23, 2001; referred to Finance Committee. Almost identical bill, H.R. 1990, introduced May 24; referred to six committees.

**S. 981 (Rockefeller)**

TANF. Low-Income Gasoline Assistance. Establishes grant program for stipends to TANF recipients and other low-income working families who must drive a certain distance. Introduced May 26, 2001; referred to Finance Committee. See also H.R. 2427.

**S. 1249 (Wellstone)**

TANF. Entitles victims of domestic/sexual violence to emergency leave for various kinds of help, allows use of TANF funds for emergency aid to persons taking this leave. Introduced July 25, 2001; referred to Finance Committee. Companion bill: H.R. 2670.

**S. 2052 (Rockefeller)**

TANF reauthorization.. Introduced March 21, 2002, referred to Finance. Committee.

**S. 2058 (Lincoln)**

TANF. Replaces the TANF caseload reduction credit with an employment credit. Introduced March 21, 2002, referred to Finance Committee.

**S.2116 (Kerry)**

TANF and housing. Several provisions to facilitate use of TANF funds for housing. Introduced April 11, 2002, referred to Finance Committee.

**S. 2484 (Baucus)**

TANF for Indians. Introduced May 8, 2002, referred to Finance Committee.

**S. 2524 (Bayh)**

TANF reauthorization. Introduced May 15, 2002, referred to Finance Committee.

**FOR ADDITIONAL READING**

(See also the CRS Welfare Reform Briefing Book, at [<http://www.congress.gov/brbk/html/ebwlf1.shtml>])

CRS Report RL31228. *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY1998-FY2000*, by Vee Burke.

CRS Report RS20948. *Charitable Choice Provisions of H.R. 7*, by Vee Burke.

CRS Report RL31371. *Comments from the Public on TANF Reauthorization*, by Vee Burke, Gene Falk, Melinda Gish, Shannon Harper, Carmen Solomon-Fears, Karen Spar, and Emilie Stoltzfus

CRS Report RL31393. *TANF: Brief Comparison of Reauthorization Bills*, by Vee Burke

CRS Report 97-86. *Indian Tribes and Welfare Reform*, by Vee Burke.

CRS Report RL31106. *Welfare Reform Financing Issues: An Analysis of Funding Available in Case of Recession*, by Gene Falk.

CRS Report RL31087. *Welfare Reform: FY2000 TANF Spending and Recent Spending Trends*, by Gene Falk.

CRS Report 97-509. *Welfare Reform: Role of Education*, by Vee Burke.

CRS Report 98-369. *Welfare Reform: TANF Trends and Data*, by Vee Burke.

CRS Report RS21079. *TANF Time Limits: Basic Facts and Implications*, by Gene Falk, Vee Burke, and Shannon Harper.

CRS Report RL30724. *Welfare Reform Research: What Have We Learned Since the Family Support Act of 1988?* by Christine Devere, Gene Falk, and Vee Burke.

CRS Report RL30882. *Welfare Reform Research: What Do We Know about Those Who Leave Welfare?* by Christine Devere.

CRS Report RS21069. *TANF Sanctions—Brief Summary*, by Vee Burke and Gene Falk.

CRS Report 96-882. *The Wisconsin Works Welfare Program: Concept and Experience*, by Vee Burke.