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Welfare Reform: An Issue Overview

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SUMMARY

On March 4, the chairman of the House Ways and Means Human Resources Subcommittee introduced a temporary TANF extension bill (H.R. 3897) that would appropriate $100 million for marriage promotion activities for the last half of FY2004. An earlier bill of the chairman (H.R. 3848) would modify the caseload reduction credit to decrease its size. Both bills would extend TANF plus related programs for another quarter, through June 30, 2004. They propose the 6th temporary extension of the program since the end of FY2002. Previous extensions made no changes from FY2002 funding levels or rules. Earmarked marriage promotion grants and revision of the caseload reduction credit are features of the 5-year TANF reauthorization bill (H.R. 4), passed by the House in February 2003. The Senate Finance Committee in September approved a substitute version of H.R. 4, which now awaits Senate debate. The Senate bill also provides marriage promotion grants, but it repeals the caseload reduction credit effective October 1, 2005, replacing it with an employment credit.

The President's FY2005 budget proposes to increase funding for marriage promotion beyond the amount provided in the House-passed version of H.R. 4. The budget requests $240 annually (FY2005-FY2009) for marriage promotion activities, about $40 million above the sum in the House bill. It also proposes to double overall spending for abstinence education and to increase funding for projects in the faith-based initiative.

The two versions of H.R. 4 revise and fund the TANF block grant for FY2004-FY2008. The bills also reauthorize and fund related programs of mandatory child care, transitional medicaid, and state grants for abstinence education for these years. Both raise TANF work participation standards (but, in different ways, permit reduction of those standards), appropriate funds for fatherhood grants as well as marriage promotion, increase weekly work hours (by different amounts), and allow partial credit for work hours below their separate and different standards (the Finance measure also gives extra credit for hours above its standards and increases the list of countable work activities). The House-passed bill raises the work week for TANF recipients to 40 hours (but gives partial credit for hours above 24) and requires that states eventually engage 70% of recipients in a work activity (up from 50%). The Senate Committee version of H.R. 4 lengthens the TANF week — to 34 hours for single parents without a preschooler (24 hours for those with a child under 6) and 39 hours for a two-parent family (55 hours if the family receives federally funded child care). See CRS Report RL32210 for a side-by-side comparison of the two bills with current law.

On March 9 an amendment to H.R. 4 (S.Amdt. 2711) was filed to reduce penalties against states for failing work participation rates. During Senate debate, other amendments are likely regarding work rules, child care funding and a state option to give Medicaid to legal immigrants. S. 5, the Senate Republican leadership bill, is very similar to the House-passed bill. Two pending Democratic bills (S. 367 and S. 448) propose to retain the current work week. A bipartisan bill (S. 1443) would boost mandatory child care funding by $5.5 billion over 5 years and increase TANF work hours.

FY2002 TANF work participation rates fell slightly, to 33.4% for all families. June TANF enrollment was slightly bigger than a year before. December food stamp enrollment was up 13% from a year earlier.

Most Recent Developments

On March 4, the chairman of the House Ways and Means Human Resources Subcommittee introduced a second bill to extend TANF for another quarter, through June 30, 2004 (H.R. 3897). The new bill would appropriate $100 million for marriage promotion activities for the last half of FY2004. The chairman's earlier bill (H.R. 3848) would decrease the caseload reduction credit and, thus, increase effective work participation standards. Earmarked marriage promotion grants and revision of the caseload reduction credit are features of the 5-year TANF reauthorization bill (H.R. 4), passed by the House in February 2003. On March 3, President Bush announced that competitive grant awards to faith-based organizations from two major federal departments increased by $144 million, or 15%, in FY2003. The President's FY2005 budget assumes reauthorization of TANF through FY2009. The budget would continue basic and supplemental grants at current levels, but create new grants for marriage promotion ($240 million annually, about $40 million above the amount in the House-passed TANF bill). P.L. 108-199, signed on January 23, restores the 10% cap on transfer of TANF funds to the Social Services Block Grant (SSBG) (earlier law set a 4.25% limit for FY2004), appropriates $1.7 billion for SSBG and $2.1 billion for the Child Care and Development Block Grant, and rescinds welfare-to-work (WtW) grant amounts that were unspent on the date of enactment.

Background and Analysis

Major Programs for Low-Income Families

AFDC/TANF national enrollment, which has fallen more than 50% since 1994, rose slightly above the year-earlier level in June. The caseload held 2.032.2 million families, compared with 2.025.3 million one year earlier and with the record peak of 5.084 million in March 1994. (If families in separate state-funded programs are included, the June total would be 2,172 million, up 9,000 from the same month of 2002) According to the 2002 report of the Council of Economic Advisers (CEA), research has found that time limits alone caused more than 10% of the 1993-1999 caseload decline. An HHS-funded study concluded that roughly half of the decline in the caseload during the 1990s was due to decreases in entry (National Bureau of Economic Research, Working Paper 9472, January 2003).

The food stamp caseload, steadily rising for two years, reached 23.3 million persons in December, the highest number since February 1997, and up 13.4% from December 2003. The all-time peak was 28 million in March 1994. The number of children enrolled in Medicaid rose from 21.7 million in FY1999 to 25.5 million in FY2002, and the number of enrolled parents climbed from 9 million to 13.9 million. In the State Children's Health Insurance program (SCHIP) the number of enrolled children rose from 0.9 million in FY1999 to 5.3 million in FY2002; SCHIP also served 0.3 million adults. The Earned Income Tax Credit (EITC) is the largest form of income-tested federal cash aid for families. In FY2002, it provided an estimated $27.8 billion in Treasury checks to low-income working families, compared with TANF cash benefits of $13.1 billion. FY2002 estimated spending for low-income children and their families by selected major income-tested programs reached $169.4 billion, up 10% from the FY2001 amount (**Table 1**). Spending rose 24% for medical benefits, 9% for food aid, and 10% for housing subsidies, but dropped 5% for cash help.

Table 1. Estimated Income-Tested Outlays for Children and Their Families from Selected Major Programs, FY2001 and FY2002

	Federal Funds ($ in billions)		State-local Funds ($ in billions)		Recipients[a] (in millions)	
	FY2001	FY2002	FY2001	FY2002	FY2001	FY2002
Cash aid	**$46.1**	**$44.7**	**$6.9**	**$6.6**	——	—— —
(TANF)[b]	(6.7)	(6.5)	(6.9)	(6.6)	(5.4)[c]	(5.1)[c]
(EITC — refunds)[d]	(29.4)	(27.8)	0	0	(16.8)	n.a.
(Child tax credit — refunds)[d]	(5.0)	(5.1)	0	0	(18.6)	n.a.
(SSI) (children only)	(5.0)	(5.3)	n.a.	n.a.	(.88)	(.92)
Food benefits	**28**	**30.3**	**1.0**	**1.2**	——	—— —
(Food stamps)[e]	(15.0)	(16.3)	(1.0)	(1.2)	(13.5)[c]	(14.9)[c]
(Subsidized meals)[f]	(8.6)	(9.6)	n.a.	n.a.	(17.3)	(18.0)
(WIC)	(4.1)	(4.4)	n.a.	n.a.	(7.3)[c]	(7.5)[c]
Major medical aid	**32.6**	**40.5**	**23.8**	**29.3**	**37.1**	**38.4**
(Medicaid)[g]	(29.9)	(36.7)	(22.6)	(27.7)	(32.3)[c]	(38.4)[c]
(SCHIP)[h]	(2.7)	(3.8)	(1.2)	(1.6)	(4.8)[c]	(5.6)[c]
Major housing aid	**15.3**	**16.8**	**0**	**0**	**2.21**	**2.21**
(Public housing)	(3.3)	(3.7)	0[i]	0[i]	(0.54)[j]	(0.538)[j]
(Section 8)	(7.9)	(8.8)	0	0	(1.57)[j]	1.58)[j]
(Rural housing service programs)[k]	(4.1)	(4.3)	0	0	(0.1)[l]	(0.1)[l]

Note: Figures include 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.

a. *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 and child tax credit, *yearly total* number of *tax filers*; SSI, number of children in September, and housing, number of *households* at end of year.

b. Includes basic cash assistance, non-recurring short term aid, refundable tax credits, and contributions to IDAs. Excludes outlays for work activities, child care, supportive services, and other activities to promote TANF goals.

c. Includes parents. Child totals: TANF, 4.1 million in FY2001, 3.8 million in FY2002; food stamps, 8.8 million in FY2001, 9.7 million in FY2002; WIC, 5.5 million in FY2001, 5.6 million in FY2002; Medicaid, 22.6 million and 25.5 million, respectively; SCHIP, 4.6 million and 5.2 million, respectively.

d. Credit earned in calendar year preceding the fiscal year (example, CY2001 for FY2002). Excludes tax "expenditures" (credits used to offset tax liability). FY2002 spending and recipient data are estimates.

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

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

g. Spending estimates are from the March 2002 and March 2003 baselines of CBO. The federal funding share is estimated at 57% of total spending.

h. Spending estimates are based on state expenditure reports.

i. Localities accept below-tax payments in lieu of property taxes on public housing projects.

j. Estimate, based on FY2000 percentages of subsidized households that included children: public housing, 44.5%; Section 8 voucher program, 61%; Section 8 project-based program, 32.6%.

k. Subsidized loans to low-income persons for homeownership (Section 502) and rental aid (Sections 515/521).

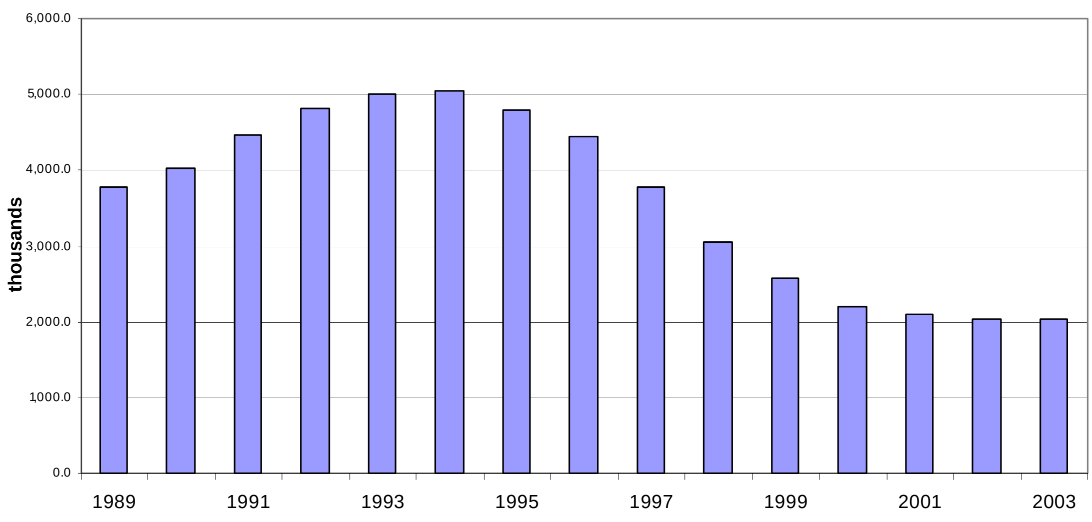
l. Represents housing units, each of which generally can accommodate one family. Assistance was provided to 86,590 families in FY2001 and 94,600 in FY2002. The Rural Housing Service does not collect data on children in households.

FY2005 Budget Proposals

For marriage promotion — $240 million annually proposed for FY2005-FY2009 up about $40 million from the sum in the House-passed H.R. 4. For abstinence education — $276 million for FY2005, compared with $137 million for FY2004. The breakdown (FY2004 figure in parentheses): community-based abstinence education, $186 million ($74 million); grants to states, $50 million ($50 million); national media campaign, $10 million (zero), and demonstrations and research, $26 million ($13 million). For four faith-based initiative projects — $165 million for FY2005, compared with $103 million for FY2004. The breakdown: compassion capital fund, $100 million ($48 million): mentoring children of prisoners, $50 million ($50 million) maternity group homes $10 million (zero); and 5-city pilot to increase participation of faith-based and community organizations in community development programs, $5 million (zero). For FY2004, P.L. 108-199 appropriated $5 million for another element of the faith-based initiative, an offender re-entry program authorized by P.L. 107-273. Further, the FY2005 budget said that the Departments of Labor, Housing and Urban Development (HUD), and Justice would be involved in a four-year $300 million Prisoner Re-Entry Initiative.

TANF Trends and Data

Figure 1. TANF/AFDC Families, June Cases, 1989-2003



The decline in TANF rolls has slowed to a near halt (see Figure 1). National numbers reported by HHS for June 2003 (2.032 million families) were 7,000 below those of March 2003, but 7,000 above those of June, 2002. States in which reported caseloads fell short of year-earlier levels included New York and California, which have moved into state-funded safety net programs more than 48,000 families (NY) and more than 65,000 children (California) after they reached the 5-year limit on federally funded ongoing cash aid. Official TANF numbers exclude families in separate state programs. Inclusion of families in separate state caseloads raises the overall June 2003 total to 2.172 million. See *Caseload Trends* in the CRS welfare reform briefing book.

The 1996 Welfare Law and Changes to Date

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 these programs into a block ($16.5 billion annually through FY2002 and entitles each state to a fixed yearly sum based on pre-TANF funding. It also provides an average of $2.3 billion annually in a new child care block grant. (TANF and related programs have been extended through the first half of FY2004 by a series of laws) 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. 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.

The TANF block grant imposes some conditions. States must achieve minimum work participation rates (50% of all families, including 90% of two-parent families — but these standards are lowered for caseload declines from FY1995 levels). States must 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). For single parent families, the law sets a TANF work week of 30 hours (20 hours if they have a child under 6, as most TANF single parents do). 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 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/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 had to extend transitional medical assistance (TMA) for 12 months to those who lost TANF eligibility because larger earnings lifted their income above July 1996 limits. The House - passed H.R. 4 extends TMA for 1 year; the Senate Finance H.R. 4 substitute, for 5 years.

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 Child Care and Development Block Grant (CCDBG). The combined entitlement and discretionary funding streams are referred to as the Child Care and Development Fund (CCDF). For FY2003 (as for FY2002), Congress appropriated $4.8 billion: $2.1 billion in discretionary funds, $2.7 billion in mandatory funds. States may transfer some TANF funds to CCDF; also, they use TANF block grants for "direct" child care. FY2002 TANF-funded child care (federal and state dollars) totaled $2.3 billion, exclusive of $1 billion transferred to CCDF and state spending that also could be counted toward sums needed to qualify for matching child care entitlement funds. Congress appropriated $2.1 billion in discretionary funds for FY2004. Mandatory funding for the latter half of FY2004 awaits action on TANF reauthorization. See CRS Report RL31817.

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. P.L. 105-33 restored SSI for legal aliens enrolled 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.) The 2002 farm bill (P.L. 107-171) granted food stamp eligibility to noncitizens after their first 5 years in this country and to alien children regardless of their date of entry or length of U.S. residence.

Food Stamp Revisions

The 1996 law expanded states' food stamp role, added 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 raised benefits for those with high shelter costs, and the 2002 farm bill increased estimated food stamp spending by $5.7/$5.9 billion over 10 years. Changes include expanded eligibility for aliens.

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 entitled states to $2.38 billion yearly. 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, and Congress appropriated this amount for FY2002. (For TANF transfers to SSBG, see *Transfer of TANF Funds*.) The CARE Act (S. 476), approved by the Senate April 9, proposed to increase SSBG funding for FY2003 and FY2004 (to $1.975 and $2.8 billion, respectively). However, in the consolidated appropriations act (P.L. 108-199) Congress appropriated $1.7 billion for FY2004.

TANF Reauthorization Bills

(See CRS Report RL32210 for a side-by-side comparison of the two major bills of 2003.)

H.R. 4 — House-Passed Bill and Senate Finance Version

Work Rules. The House bill, passed on February 13, 2003, and the Senate Finance Committee version of H.R. 4 (PRIDE), ordered reported on October 3, 2003, both increase the all-family minimum participation requirement from the current 50% level to 70% by FY2008 (but, in different ways, permit reduction from the standard), end the separate higher rate for 2-parent families, and require TANF adults to engage in work or self-sufficiency activities more hours weekly than current law. The House bill requires an average of 40 hours per week (calculated on the basis of a 160 hour month, equivalent to 37 hours weekly) for all recipients except teen parents without a high school diploma. The Senate Committee bill sets the work week at 34 hours for single adult parents without a child under 6, up 4 hours from current law. The House bill allows only a list of 6 direct work activities to count toward the required 24 hour week (except for 3 months within 24, when states could count any TANF-promoting activity). The Senate Committee plan retains the existing law's list of 12 countable activities and — after 24 hours spent in one of these activities — permits five specified other activities, including postsecondary education, to be counted. See **Table 1**. The Senate bill also permits "parents as scholars" programs for some TANF recipients, whose participation would count as work. Both bills provide credits to reduce work participation rates. The House bill provides a caseload reduction credit (smaller than the one in current law). The Finance bill creates a credit for employment of families who leave the rolls; this credit is capped so that effective work targets cannot be reduced below 10% in FY2004, 20% in FY2005, 30% in FY2006, 40% in FY2007, and 50% in FY2008.

Other Provisions. Both bills maintain funding at current levels for basic block grants, supplemental grants, and the contingency fund (but ease access to the contingency fund). Both bills retain current time limit rules. The House bill requires states to end cash aid for a family for at least one month if the parent fails to engage in required activities for two months. Both bills end the nonmarital birth bonus and the high performance bonus and replace the latter with employment achievement bonuses. The House bill allows 50% of TANF funds to be transferred to the CCDBG (up from 30% in current law). Both bills establish marriage promotion matching grants ($100 million yearly) and additional research and technical assistance funds earmarked for marriage promotion activities (the House bill says that a $100 research fund/technical assistance fund must be used "primarily" for marriage promotion activities; the Senate bill earmarks $80 million for this purpose). Both bills extend abstinence education grants for 5 years ($50 million yearly). The House bill creates new "superwaiver" authority for states to coordinate rules of 9 specified programs (including food stamps) for low-income families.

Other Pending Bills: S. 5, S. 367, S. 448, and S. 1443

The Senate Republican leadership bill, S. 5 (Talent), is very similar to the House-passed bill. However, it adds new anti-fraud rules, permits states to contract out the determination of food stamp eligibility, disallows a super-waiver that would reduce or eliminate TANF work participation rates, and doubles funding for healthy marriage promotion matching grants. It also indexes funding (at one-half the rate of inflation) for the food assistance block grant projects proposed in H.R. 4. A Democratic bill, S. 367 (Rockefeller), increases TANF basic and supplemental grants; maintains work participation standards at 50%, adds new countable work activities; permits states to stop the federal time clock during months of work and certain other activity, allows states, through September 30, 2008, to continue prewelfare reform waivers scheduled to expire after September 30, 2002. Another Democratic bill, S. 448 (Dodd), prohibits use of TANF funds to supplant other funds, stops the federal time clock during priority activity; provides partial work credit for part-time workers; permits a state, without numerical limit, to continue federally funded benefits beyond 60 months for persons with severe work barriers; requires states to give extended time to persons in wage-paying jobs; greatly enlarges child care funding (up to $24.2 billion for FY2013); provides $200 million yearly for a poverty reduction bonus; and increases the federal minimum wage.

A bipartisan bill, S. 1443 (Carper, Nelson of Nebraska and Collins) lengthens the TANF work week (to 32 hours) for persons without a child under 6 (requiring that 24 hours — up from 20 — be in core activities), and provides partial work credit for part-time work. It allows states to establish parents as scholars programs, doubles the length of countable vocational education, and increases child care funding by $5.5 billion over 5 years. It also provides numerous special grants.

TANF Issues

Definition of "Work Activities" and the Role of Education

What activities are countable in calculating a state's work participation rate? 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). Participation in vocational educational training or completion of high school can account for no more than 30% of 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.)

Table 2. Selected Work Provisions of House-Passed and Senate Finance Committee Versions of H.R. 4

	House-Passed H.R. 4	Senate Committee H.R. 4 Bill
Required participation rates	Rates increased yearly, from 50% in FY2004 to peak of 70% in FY2008	Same as House bill
Credits against participation rate	Caseload reduction credit. Reduces target rate by 1 percentage point for each percentage cut in caseload from a moving base year. By FY2007 base reaches FY2003.	Employment credit. Reduces target rate by the percentage of families who leave cash aid with a job for 2 consecutive quarters. Caps credit so that effective target rates cannot be cut below 50% by FY2008.
Work activities	6 direct work activities (unsubsidized jobs, subsidized private jobs, subsidized public jobs, on-the-job training, supervised work experience, and supervised community service).* Gives credit — after 24 hours weekly in direct work — for any other state-defined activity leading to self-sufficiency. Note: for 3 months any state-chosen activity could be deemed to meet 24 hour direct work rule.	17 activities, 12 in current law plus 5 new ones. Gives credit — after 24 hours weekly in current law activities — for postsecondary education, adult literacy, substance abuse services, barrier-removal services, and grandfathered pre-TANF waiver programs and activities of any state. Also permits time-limited participation in specified "rehabilitation" activities.
Work hours	40 hour weekly average — with 24 "core" hours (direct work). Note: retains current law special rule for teen parents without high school diploma. (satisfactory school attendance or 20 hours of education directly related to work).	Single parent — 24 hours if have child under 6 (34 hours otherwise). Two-parent family — 39 hours (55 if receive child care). Like House bill, retains special rule for teen parents without high school diploma.
Partial credit for work hours below the standard	Pro-rated credit for hours above 24 but below 40. No credit for hours below 24.	Partial credit for hours below standard and extra credit for hours above standard. For single parents, no credit for hours below 20. For two-parent families, no credit for hours below 26 (below 40 if receive federally funded child care).
Universal engagement	Requires development of a self-sufficiency plan for each family with a work-eligible person. Sets penalty for failure to establish plans.	Very similar to House bill
Child care	Appropriates $2.9 billion in entitlement funds for each of FY2004 through FY2008.	Same as House bill

* Direct work activities in House bill exclude 3 activities that have priority status in current law — job search, vocational educational training, and providing child care for community service participant.

Application of Minimum Wage Laws to "Workfare"

The Clinton Administration ruled that most TANF recipients assigned to "workfare," 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). 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 Alaska, California, New York (Suffolk County), and Wisconsin (Community Service program), are TANF maximum benefits for a 3-person family (as of Jan. 2003) high enough to provide the required sum for 30 hours of work, at the federal minimum wage rate. Many states could observe the workfare minimum "wage" by adding food stamps to the calculation, but some would have to boost cash benefits.

Work Participation Rates and Penalties

HHS reported on September 23, 2003, that work participation rates declined in FY2002 to 33.4% for all families and 49.4% for 2-parent families (compared with 34.3% and 51.1%, respectively, in FY2001). All jurisdictions except Guam met their all-family adjusted minimum standards, but 5 of the 30 jurisdictions with two-parent families in the TANF program Failing the 2-person standard were Arkansas, Delaware, Guam, Missouri, and West Virginia. Participation rates of the states that had continuing waivers were calculated under work rules of the waivers. In the absence of waivers, national participation rates would have been lower (28.9% for all families and 44.2% for two-parent families). The statutory minimum work rates for FY2002 were 50% 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 FY2000. These credits reduced all-family participation standards to zero in 21 states. See [http://www.acf.dhhs.gov/programs/ofa/2002/im2003-2.htm] for state rates. Both versions of H.R. 4 (the House-passed bill and the Finance Committee substitute) end the higher two-parent work rate.

Child Care Funding

The level of child care funding has emerged as a key issue in TANF reauthorization. House-passed TANF bills in 2002 and 2003 (H.R. 4737 and H.R. 4, respectively) proposed to increase mandatory child care funding by $1 billion over 5 years and to raise the discretionary authorization by $200 million annually over 5 years, reaching the level of $3.1 billion in FY2007. The Senate Finance TANF bill in 2002 proposed to increase mandatory funding by $5.5 billion over 5 years. S. 261 would increase funds for the Child Care Development and Block Grant (CCDBG) by $11.2 billion over 5 years.

"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.

(S. 5 would permit states to "privatize" determination of food stamp eligibility.) The stated 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.) (Final regulations implementing charitable choice rules for the above programs were issued September 30, 2003.) Using its new privatization authority, Wisconsin has contracted out the administration of TANF in some counties, and a 2002 survey by the General Accounting Office found that in some locations in three other states (Texas, Arizona, and Florida) the determination of TANF eligibility is performed by contractors (GAO-02-661). Florida plans to have private contractors make a "preliminary" decision about eligibility for food stamps and Medicaid, along with TANF, but to have state officials make the official determination for food stamps and Medicaid.

To carry out the faith-based agenda proposed by President Bush in January 2001, the House voted (H.R. 7) to extend charitable choice rules to nine new program areas and offer tax incentives for charitable giving, but the Senate did not pass this legislation. Thereafter, on December 12, 2002, the President issued an executive order (No. 13279) directing 6 Cabinet officers and the Administrator of AID, "to the extent permitted by law," to adopt charitable choice principles in social service programs. (In his 2004 State of the Union address, the President asked Congress "to codify" the executive orders into law.) On September 30, 2003, the Department of Housing and Urban Development (HUD) issued final regulations, in response to the executive order, to extend charitable choice principles to eight housing programs. On September 23, the White House announced that the Departments of Education, Labor, and Justice, and the Veterans Administration were proposing new regulations or policy changes to facilitate partnerships of faith-based groups with the federal government. Congress earlier had acted on four other faith-based initiatives: a matching grant program to help children of prisoners, prison pre-release pilot programs, a Compassion Capital fund to provide technical aid and start-up costs for small groups, and competition for 21st Century Community Learning Center grants.

However, Congress took no action on two other faith-based initiatives: responsible fatherhood grants and second-chance maternity homes. In the consolidated appropriations law for FY2004 (P.L. 108-199) Congress provided $48 million for the Compassion Capital fund (compared with $100 million budget request),$50 million to mentor children of prisoners, and $5 million for an ex-offender re-entry program. In his 2004 State of the Union address, President Bush proposed a 4-year $300 million prisoner re-entry initiative to expand job training and placement services and provide transitional housing and mentoring services for newly released prisoners. For faith-based projects proposed in the budget, see *FY2005 Budget Proposals* above. The CARE Act (S. 476), passed by the Senate April 9, has no charitable choice provisions; but, in a title called Compassion Capital Fund, it authorizes $150 million for FY2003 (and "such funds" as needed for FY2004-2007) in grants to nongovernmental organizations for technical assistance and other support to community-based organizations. H.R. 7 also provides compassion capital funding. President Bush announced on March 3 that competitive grant awards to faith-based organizations from the Departments of Health and Human Services (HHS) and Housing and Urban Development (HUD) increased by $144 million, or 15%, in FY2003 to reach a total of $1.1 billion

Welfare-to-Work (WtW) Grants

The basic TANF block grant earmarks no funds for any program component, benefits or work programs. The 1997 Balanced Budget Act created 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. Remaining funds were to be used for competitive grants. As of September 30, 2002, a net total of $2.2 billion had been awarded. 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. In response to complaints that narrow eligibility conditions were inhibiting enrollment, Congress liberalized terms in 1999. The next year it gave states and competitive grantees another two years in which to spend WtW funds. Eligible for WtW services since July 1, 2001, have been these 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 who are unemployed, underemployed, or having difficulty paying child support and comply with a personal responsibility contract. As of September 30, 2002, about 19% of net WtW awards remained unspent ($293 million in formula grants and $123 million in competitive grants) The FY2004 consolidated appropriations act (P.L. 108-199) 2673) rescinds any WtW amounts allotted to states from funds appropriated for FY1999 that were unspent on January 23, except for certain close-out costs. (For more background, 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. P.L. 105-178 cut the share of funds that could go to SSBG to 4.25%, effective in FY2001. However, Congress since has continued it at 10%, year by year, most recently for FY2003 (P.L. 108-7). On July 10, the House voted (FY2004 appropriations bill, H.R. 2660) to allow only 5.5% of TANF funds to be transferred to SSBG. The House has twice voted (H.R. 4737 in 2002 and H.R. 4 in 2003) to allow states to transfer 50% of TANF funds to CCDBG. H.R. 2673, signed January 23, 2004, sets the transfer limit to SSBG at 10%.

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; all but 10 jurisdictions have adopted this Family Violence Option (FVO). 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 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.)

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, and for FY2001, $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). The Senate Finance Committee TANF measure authorizes appropriation of $25 million for each of FY2004-FY2009 for grants for low-income car ownership.

Housing Vouchers for TANF Recipients

In response to President Clinton's FY1999 request, Congress appropriated funds in 1998 (P.L. 105-276) for tenant-based housing assistance to help eligible TANF families move to work ($283 million, sufficient for 50,000 Section 8 vouchers). This 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 WAW housing vouchers, but Congress denied the requests, and subsequent budgets (including that for FY2003) have sought no new WAW housing vouchers. The FY2004 budget proposes to gradually replace Section 8 housing vouchers with Housing Assistance for Needy Families (HANF) block grants to states. For a general discussion of housing for the poor, see CRS Report RL30486.

Waivers

Before passage of TANF, many states received waivers from AFDC rules to undertake program changes; they were allowed to continue these waivers, even if inconsistent with TANF rules, until their scheduled expiration. Four states still have waivers in operation (Montana, Hawaii, Massachusetts, and Tennessee). S. 367 would allow states, through September 30, 2008, to continue waivers scheduled to expire after September 30, 2002. S. 263 and S. 605 also would permit states to extend waivers. The former bill also would require HHS approval of some new applications for waivers. H.R. 4, as passed by the House (and S. 5) would establish a new program of superwaivers to permit coordination of two or more programs. See "superwaivers" in the welfare reform electronic briefing book. Also, see discussion under *Other Provisions of House-Passed Bill, H.R. 4*.

Tax Credits for Hiring Welfare Recipients

In 1997, Congress established a Welfare-to-Work (WAW)Tax Credit for hiring persons who had received AFDC/TANF for 18 months. It also extended an existing credit called the Work Opportunity (WOTC)for hiring certain persons, including those who had received TANF for 9 months. P.L. 106-554 added "renewal communities" to the areas where a tax credit is offered for hiring resident youth. Both credits expired on Dec. 30, 2003. H. 2047 and S. 1180 would make the credits permanent, in combined and modified form. See CRS Report RL30089.

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 IDAs. According to HHS, 31 states allow TANF recipients to establish IDAs, including IDAs under the Assets for Independence (AFI) 5-year demonstration program created by Congress in 1998. In the first 3 years of the AFI program, awards totaling $37.5 million were made to 125 competitively-funded grantees to operate IDA programs for TANF-eligible and certain other low-income persons. In addition, under terms of the law, two states (Indiana and Pennsylvania) with pre-existing programs were awarded just over $5 million for FY1999-2001. Appropriations for FY1999 and FY2000 were $10 million each; for FY2001 and FY2002, $25 million each. In mid-June, 2002, the Office of Refugee Resettlement (ORR) announced that it planned to award about $2.5 million in FY2002 ORR funds for projects to establish and manage IDA accounts for refugees (a term including asylees, Cuban and Haitian entrants, and certain Amerasians from Vietnam). Savings in these IDAs could be used not only for home ownership, business capitalization, and postsecondary education, but also for purchase of an automobile or computer. S. 476 , approved by the Senate on April 9, would establish a new IDA program financed with tax credits to financial institutions. H.R. 7, passed by the House in September, continues the existing AFI IDA program for 5 years. The consolidated appropriations act for FY2004 (H.R. 2673) provides $24.9 million for the (ongoing) IDA program

Unspent TANF Funds

As of September 30, 2002, HHS reports that states had an unspent and unobligated balance in the U.S. Treasury of $2.7 billion in TANF funds. In addition, unliquidated obligations totaled $3.1 billion. Nine states had no balances left to obligate: California, Colorado, Connecticut, Illinois, Massachusetts, Rhode Island, South Carolina, Vermont, and Virginia. States may draw TANF funds from the Treasury only for reimbursement of expenditures. The law sets no fiscal year deadline for spending TANF dollars for "assistance," defined by regulation as basic ongoing aid. The House-passed H.R. 4 and the Finance Committee H.R. 4 both would permit carryover of funds for any benefit or service.

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 in 2001 (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. Both H.R. 4 and the Finance Committee substitute for this bill have provisions to promote "responsible fatherhood" and distribute more child support directly to families.

TANF Bonus Funds

On September 26, 2003, HHS announced award of $100 million in bonuses to 6 of the 9 jurisdictions that achieved reductions in the percentages of births to unwed women between 1998-1999 and 2000-2001. Bonuses went to Colorado, D.C., Maryland, Texas, Wyoming, and the Virgin Islands. On September 23, 2003, and September 30, 2003, the Department announced award of the fourth and fifth TANF high performance bonuses: $400 million, based on state rankings (absolute and relative) on various measures. About $278 million (70% of bonuses) was based on work measures (job entry and success in the workforce) and $128 million was based on other measures — participation in food stamps, coverage by Medicaid/SCHIP, child care subsidies, and percentage of children in 2-parent families. All states except Colorado and Illinois received a bonus for 2001 or 2002 performance. H.R. 4 and PRIDE would eliminate nonwork measures from high performance bonus award. (and would eliminate non-marital birth bonuses). For state rankings and high performance bonuses, see [http://www.acf.dhhs.gov/programs/opre/hpb/index.htm].

LEGISLATION

Note: All Senate bills shown were referred to the Senate Finance Committee.

H.R. 4 (Pryce)

Reauthorizes TANF, on new terms, for 5 years. See text above. Passed House February 13, 2003. Senate Finance Committee rewrote the bill and ordered it reported on October 3 (S.Rept. 108-162). See text above.

H.R. 624 (Stark)

TANF. Credits work-barrier removal as work. Introduced February 5, 2003; referred to Ways and Means Committee. See also S. 316 (Corzine)

H.R. 2047 (Houghton)

Employer tax credits. Combines welfare-to-work and work opportunity credits and makes them permanent. Introduced May 9, 2003. Senate companion: S. 1180.

H.R. 2770 (Pallone)
TANF and Indians. Provides special funding for tribal programs. Introduced July 17; 2003, referred to several committees.

H.R. 3848 (Herger)
TANF and related programs. Extends programs through June 30, 2004. Modifies the caseload reduction credit reducing its size. Introduced February 26. 2004

H.R. 3897 (Herger)
TANF and related programs. Provides $100 million for marriage promotion activities in last half of FY2004.. Introduced March 4, 2004.

S. 5 (Talent)
TANF reauthorization. Very similar to House-passed H.R. 4, but increases marriage funds and contains new anti-fraud and food stamp provisions. Introduced February 14, 2003.

S. 261 (Bingaman)
TANF. Children First Act. Increases CCDBG funding by $11.2 billion over 5 years; excludes months of TANF-funded child care from time limit. Introduced January 30, 2003.

S. 262 (Bingaman)
TANF. Removes percentage limit on recipients who may receive work credit for educational activity. Stops time clock for certain activity. Introduced January 30, 2003.

S. 263 (Bingaman)
TANF and waivers. Allows states to continue waivers scheduled to expire between Oct. 1, 2002 and September 30, 2007. Requires approval of applications for waivers similar to those continued above. Introduced January 30, 2003.

S. 327 (Levin)
TANF. Allows vocational educational training to be counted as a TANF work activity for 24 months. Introduced February 6, 2003.

S. 367 (Rockefeller)
TANF reauthorization. See text above. Introduced February 12, 2003.

S. 448 (Dodd)
TANF reauthorization. See text above. Introduced February 26, 2003.

S. 574 (Corzine)
TANF. Stops the federal time clock for months of assistance received during periods of high unemployment. Introduced March 7, 2003.

S. 605 (Smith)
TANF waivers. Gives states the option to continue current pre-TANF waivers (and those expiring after January 1, 2002) through September 2008. Introduced March 12, 2003.

S. 657 (Bayh)
TANF. Provides fatherhood grants within TANF. Introduced March 19, 2003.

S. 669 (Snowe)
Child support. Provides more help for ex-welfare families. Introduced March 19, 2003.

S. 770 (Feingold)
TANF. Sets due process rules and reporting rules. Introduced April 2, 2003.

S. 786 (Bingaman)
TANF. Provides grants for transitional jobs programs. Introduced April 3, 2003. See also H.R. 3560.

S. 813 (Corzine)
TANF. Requires states to promote financial education and treat it as a countable work activity. Introduced April 8, 2003.

S. 1443 (Carper, Nelson of Nebraska, and Collins)
TANF reauthorization. Comprehensive bill. See text. Introduced July 22, 2003.

For Additional Reading

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

CRS Report RL32233. Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2000-FY2002, compiled 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 97-86. *Indian Tribes and Welfare Reform,* by Vee Burke.

CRS Report RL32210. *TANF Reauthorization: Side-by-Side Comparison of Current Law and Two Versions of H.R. 4,* by Vee Burke and Gene Falk.

CRS Report RS21070. *TANF Sanctions Brief Summary,* by Vee Burke and Gene Falk.

CRS Report RS21069. *TANF Time Limits: Basic Facts and Implications,* by Gene Falk, Vee Burke, and Shannon Harper.

CRS Report 97-509. *Welfare Reform: Education as a Work Activity*, by Vee Burke.

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

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