



**A NEW WELFARE-TO-WORK APPROACH FOR TEXAS**

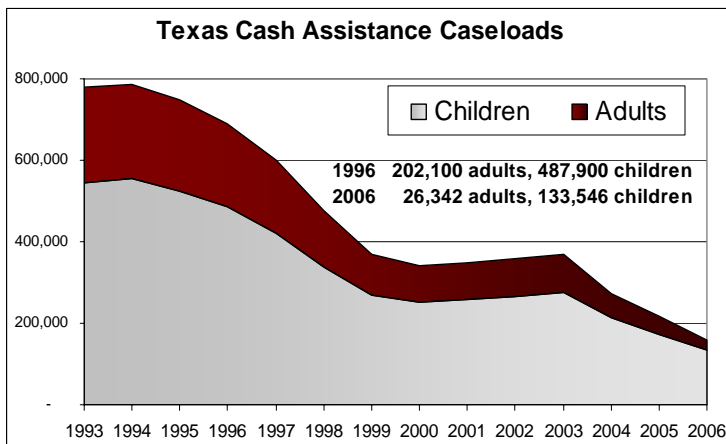
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Recent changes to the federal Temporary Assistance for Needy Families (TANF) block grant place new pressures on states to reduce their welfare caseloads and increase the number of families participating in work activities or face financial penalties. At the same time, the new rules make it harder for states to design effective welfare-to-work programs, particularly for those recipients who face the greatest barriers to employment. This policy brief analyzes these challenges in the context of Texas' welfare program and proposes a set of policy changes designed to help Texas meet the federal requirements while improving outcomes for welfare recipients.

**OVERVIEW**

Ten years ago, Congress overhauled the nation's welfare system with the promise of helping poor families become self-sufficient by replacing cash assistance with work. Known as "welfare reform," the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) established the Temporary Assistance for Needy Families (TANF) block grant.



SOURCES: Texas Department of Human Services; Texas Health and Human Services Commission. 1993 to 2006 are monthly averages for the fiscal year.

TANF replaced Aid to Families with Dependent Children (AFDC), Emergency Assistance (EA), and Job Opportunities and Basic Skills (JOBS). Authorized by the Social Security Act in the 1930s, AFDC, EA, and JOBS were open-ended entitlement programs in which the state and federal government shared the cost of providing cash assistance, job training, and child care to households with children (typically families headed by a single mother). States were allowed to determine eligibility and benefit levels.

TANF, in contrast, provides a capped grant to states, with some supplemental and bonus grants, and gives states more flexibility in using the funds. Texas receives an annual

TANF grant (basic and supplemental funds) of \$539 million. To receive these funds, Texas spends \$251 million annually of its own, non-federal, dollars to meet a "maintenance of effort" (MOE) requirement.

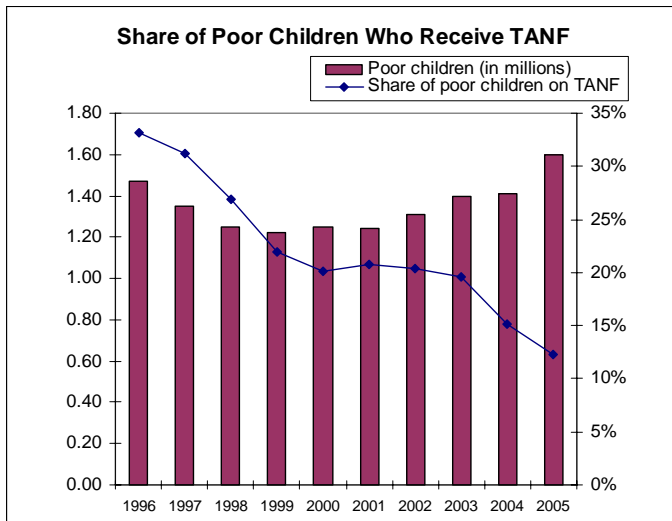
States must meet federal work participation rates and reporting requirements related to expenditures and TANF recipients. Welfare recipients face a lifetime limit of 60 months of cash assistance and must work and follow other program rules to qualify for benefits. Beyond these requirements, states have great flexibility to design their own rules for cash assistance programs, including decisions about eligibility and benefit levels.

Nationwide, the number of families receiving welfare has fallen dramatically since the 1996 law. In Texas, TANF enrollment has decreased by 75%. Most experts agree that welfare declines were due to an improved economy, a “work first” approach that redirected the most employable TANF adults to low-wage jobs, and other policy changes that made it harder to enter and stay on cash assistance. Supporters of welfare reform hail these declines and the growth in employment among single mothers as proof that welfare reform was a success. Success is not accurately measured by reduced welfare rolls alone, however. The goal of TANF is to reduce poverty through work, which requires getting recipients into jobs that bring their families above the poverty level.

Though the earnings of single poor mothers have increased, research on people going off the TANF rolls (“leavers”) in Texas shows that those who find employment do not earn enough to make ends meet and often return to the program. The TANF “revolving door” begins with the Choices program—Texas’ mandatory employment program that emphasizes a “job-first” approach at the expense of meaningful skills development and career-based training.

Moreover, many families leaving TANF do not make the transition from welfare to work. In Texas, most of the recent caseload decline that has occurred is *not* the result of recipients finding employment. Instead, an increasing number of families are being sanctioned off the program for failure to comply with TANF program rules. Research has consistently shown that the parents in these families face multiple employment barriers and significant hardships after losing cash assistance. They are more likely to remain jobless.

While child poverty declined in the mid-1990s, it has increased since 2000, as has the number and share of Texas children living in extreme poverty (below 50% of the poverty level). As a result, TANF now helps a smaller share of poor families than ten years ago. Cash assistance reached 22% of the 3.2 million impoverished Texans in 1996. By 2005 only 6% of the state’s 3.7 million poor were receiving cash assistance. In 1996, 33% of poor children in Texas received TANF; in 2005, only 12% did.



SOURCE: U.S. Census Bureau.

Recent changes in federal TANF rules pose new challenges for states. Most states will have to increase the share of TANF recipients engaged in work. At the same time, restrictions on the kind of work activities that can be counted toward meeting federal work requirements will make it harder for states to achieve the higher work participation targets.

As Texas charts a course for the second decade of TANF, the state is at a fork in the road. The state could stay on the low road, continuing to pursue policies that restrict access to cash assistance by any means, or travel the high road, focusing on giving parents the skills they need to enter, advance, and succeed in the workplace. If the state took the high road, TANF could play an important role in shielding children from poverty.

## SUMMARY OF RECOMMENDATIONS

- Reduce recidivism and improve outcomes for TANF recipients by developing a post-employment work support program.
- Increase funding for the Self-Sufficiency Fund job training program to give more TANF recipients the skills they need to advance in today's workforce.
- Establish a solely state-funded program to provide assistance to families who need services that do not satisfy the federal work requirement.
- Develop an “up-front” program to help families overcome barriers to employment before they are subject to TANF work requirements.
- Develop sanction policies that help families comply with program requirements and do not impose unfair penalties.

## AN OVERVIEW OF TEXAS' WELFARE PROGRAM

Texas offers very limited cash assistance benefits and serves only extremely poor families. The state also has one of the strictest welfare-to-work programs in the country. Since TANF was created 10 years ago, Texas has focused on reducing welfare caseloads and has made only limited investments in services to help families advance in the workforce and escape poverty. A summary of Texas welfare policies follows.

### *Eligibility limits and benefit levels*

Families must be below 14% of poverty to qualify for TANF—less than \$2,350 *annually* for a family of three in 2006. Families who are poor enough to qualify for TANF in Texas receive one of the nation's lowest benefits. Texas' maximum monthly TANF payment was \$213 for a family of three in 2003; only five other states (Alabama, Arkansas, Mississippi, South Carolina, and Tennessee) provided less. The median benefit nationwide was \$396 per month, almost twice as much as Texas.<sup>1</sup>

### *Time limits*

The state uses a tiered system of time limits in addition to the federal lifetime limit of 60 months. Under the state time limits, recipients are restricted to 12, 24, or 36 months of benefits depending on their employment and education experience. Once they reach these time limits, they are barred from receiving TANF for five years. The state grants temporary hardship exemptions from both the state and federal time limits on a case-by-case basis.

### *The Choices work requirement*

Texas adopted a “work-first” approach in Choices, its welfare-to-work program, which emphasizes immediate employment over job training or education. Choices is administered at the state level by the Texas Workforce Commission, and at the local level by workforce boards. Though the “work-first” approach has succeeded in getting the most employable TANF adults into low-wage jobs, it has also limited the recipients' opportunities to attain the skills and credentials they need to become self-sufficient. In 2006,

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<sup>1</sup> The Texas benefit was not always one of the lowest in the nation. In 1970, Texas' maximum monthly AFDC benefit of \$148 for a family of three was higher than that of 17 other states. However, because the Texas benefit has not been automatically adjusted for inflation until relatively recently, it has seen the largest decline in purchasing power. A benefit of \$148 in 1970 would have hit \$702 by 2003 if it had been adjusted every year for inflation using the Consumer Price Index.

only 9% of TANF recipients were involved in education or training activities related to employment.<sup>2</sup>

As a result, the vast majority of adults who leave TANF for work have below-poverty earnings. In 2005, the average wage of employed TANF “leavers” was \$7.08 per hour—well below poverty for a family of three. Only 7.4% of TANF “leavers” were earning at or above 200% of the federal poverty level; less than two-thirds (57%) maintained those wages a year later.<sup>3</sup> Many TANF leavers have trouble staying employed. A 2001 survey of Texas adults six months after they left TANF found that only 46% still had a job.<sup>4</sup>

Texas exempts certain families with barriers to employment from meeting the Choices work requirement. As of November 2006, 30% of adult TANF recipients had exemptions from the work requirement; 70% of these exemptions are for adults with disabilities or those caring for family members with disabilities.<sup>5</sup>

### *Child care*

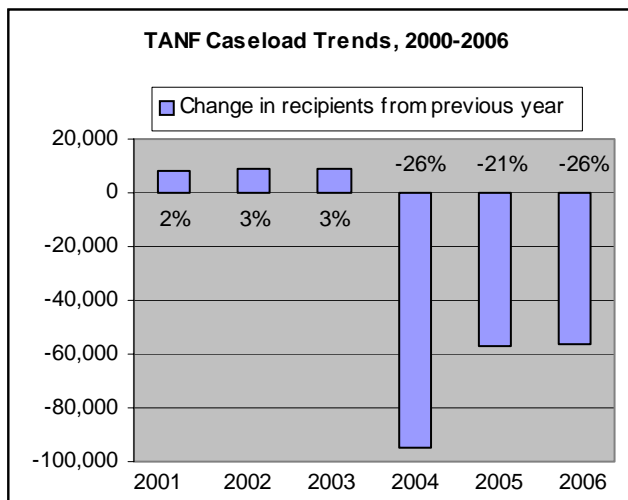
TANF adults who need child care in order to work receive a subsidy that covers the cost of this care. Although most families remain eligible for child care subsidies after they leave TANF, many do not receive this assistance. This is because state funding for “working poor” (non-TANF) child care is inadequate, with long waiting lists in most areas of the state.<sup>6</sup>

### *The Personal Responsibility Agreement*

To receive cash assistance, recipients must sign a “Personal Responsibility Agreement” that includes the work requirement as well as certain parenting and conduct rules. For example, recipients must agree not to abuse drugs or alcohol and keep their children in school and current on their health check-ups.

### *Sanction policies*

Federal law requires states to penalize families who fail to meet the work requirement by taking away the adult portion of the cash assistance grant. This is known as a “partial sanction.” States have the option to impose greater sanctions and to penalize families for not complying with other program rules as well.



In 2003, Texas adopted a “full-family sanction” for infraction of any program requirement, including the parenting and conduct rules. Under this policy, the entire family loses its assistance when an adult does not comply with a program rule. The state adopted the full-family sanction policy both as a means to improve compliance with program requirements as well as to achieve continued caseload declines. Though caseloads declined dramatically immediately following welfare reform in 1996, when the economy began to slow in 2000 caseloads rose again, growing 7% between 2000 and 2003. The full-family sanction policy reversed this trend: since 2003 TANF caseloads have fallen 54%. In fiscal 2006, an average

<sup>2</sup> Legislative Budget Board Staff Report, “Texas Government Effectiveness and Efficiency Report,” January 2007, page 65. ([http://www.lbb.state.tx.us/Performance%20Reporting/TX\\_Govt\\_Effective\\_Efficiency\\_Report\\_80th\\_0107.pdf](http://www.lbb.state.tx.us/Performance%20Reporting/TX_Govt_Effective_Efficiency_Report_80th_0107.pdf))

<sup>3</sup> Texas Workforce Commission.

<sup>4</sup> *Texas Families in Transition/Surviving Without TANF: An Analysis of Families Diverted From or Leaving TANF*, Ray Marshall Center, University of Texas at Austin, January 2002.

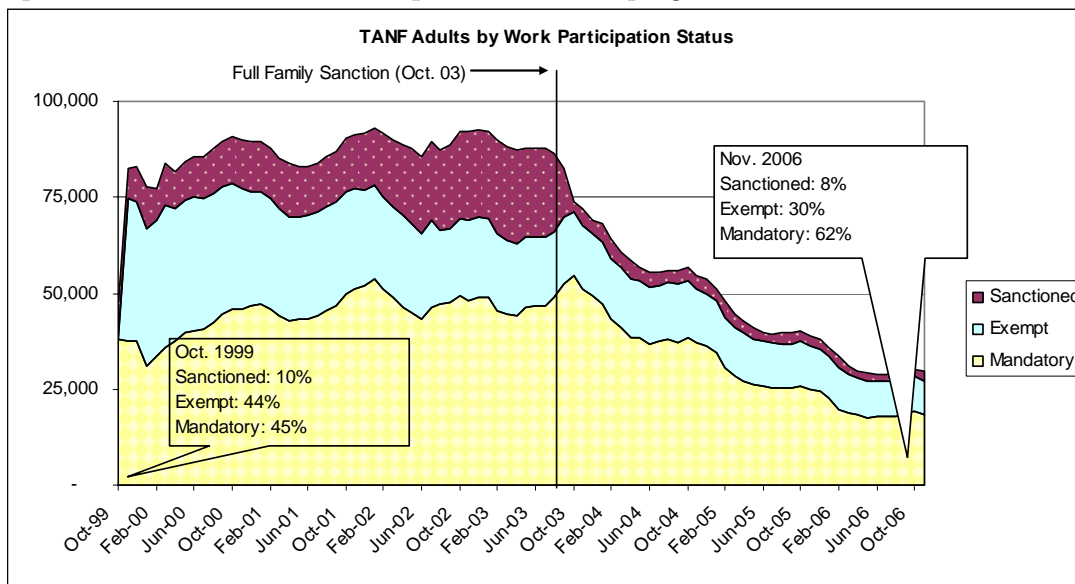
<sup>5</sup> Texas Workforce Commission.

<sup>6</sup> In fiscal 2007, 103,110 children from working poor (non-TANF and transitional) families are expected to receive child care subsidies, while 30,933 will be on a waiting list. The waiting list represents a small fraction of the actual demand for these services.

of 3,500 families, including 8,000 children, lost their cash assistance each month for failure to meet program requirements. Less than one-third of sanctioned families return to welfare within 6 months.

Before full-family sanctions, 30% of “mandatory adults” (those who are subject to the work requirement) failed to meet the work requirement. In October 2003, the month after the policy was implemented, non-compliance dropped to 5%. Since then, the average monthly non-compliance rate has been 11%. While proponents of full-family sanctions point to the “improved” compliance rate as a desirable policy outcome, in fact, it is just the opposite.

While the compliance has improved, the number of adults served in the Choices work program has dropped 64% over the last three years. In fiscal 2003, Choices provided employment services to approximately 70,000 adults each month; by 2006 the program served a monthly average of only 23,000 adults. These data strongly suggest that the high compliance rate has been achieved by forcing families off the program when they have difficulty complying with program rules. In other words, the full-family sanction has not lead to compliance with the rules, but to expulsion from the program.



SOURCE: Texas Workforce Commission

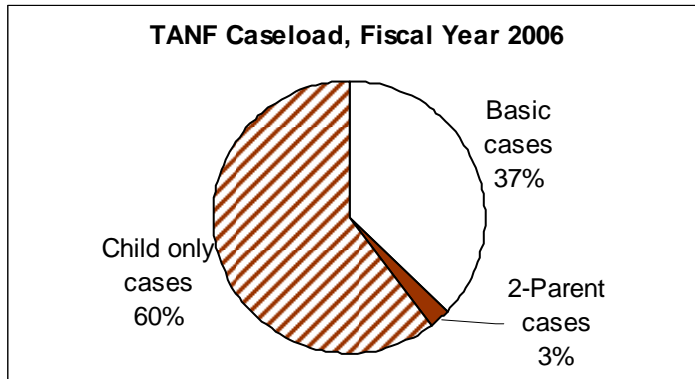
Many studies and the experience of other states support this conclusion. These studies indicate that sanctioned families are more likely to face severe barriers to finding and keeping a job, including lack of transportation, child care problems, borderline disabilities, physical and mental health problems, and chemical dependency.<sup>7</sup> The hardest-to-serve parents are also those who states should do their best to reach—they are the very families TANF is intended to serve. However, excessively harsh and punitive sanctions serve the opposite purpose: they not only deprive the neediest parents of critical cash assistance, but also sever their connection to employment services and other supports offered by TANF, further impeding these parents’ ability to work and care for their children.

Texas should evaluate its workforce system the way it judges our school system. For example, a high school that achieves a 100% graduation rate by pushing out 50% of the students before their senior year, is not doing its job. Likewise, a workforce system that achieves a high program compliance rate, but does so only by pushing 50% of its clients off the rolls, is not doing its job. Full-family sanctions can only be judged in the broader context of caseload declines and TANF’s success at getting poor parents into the workforce.

<sup>7</sup> U.S. Department of Health and Human Services, Administration for Children and Families, and Mathematica Policy Research, Inc., “Review of Sanction Policies and Research Studies,” March 10, 2003.

## *A profile of TANF families*

Texas' welfare caseload is made up of three types of families: one-parent families (TANF "Basic"); two-parent families (TANF "SP," or State Program); and child-only cases, families in which the children receive assistance but the adults in the household do not. In a significant portion of child-only cases the adult caretaker is a relative of the child, but is not the child's parent.



The Texas legislature created TANF-SP in 2001, funded with TANF Maintenance of Effort (MOE) dollars, to serve two-parent families. Before Congress enacted the Deficit Reduction Act of 2006 (DRA), recipients of MOE-funded assistance did not have to meet many of the federal TANF rules, and states were not subject to federal work participation requirements in MOE-funded programs. This rule changed under the DRA, which also requires states to engage a higher percentage of two-parent families in work activities. Many

states have responded to these changes by establishing *non*-MOE-funded state programs for two-parent families to avoid having to meet federal requirements. It is important to note that Texas *does* require many of these adults to work and meet the same program requirements as one-parent families to qualify for TANF.

Over the last decade, the composition of Texas' welfare caseload has changed significantly as time limits, work rules, and sanction policies have cut off welfare to thousands of adults. In fiscal 2006, 60% of the caseload was child-only cases, compared to only 24% in 1997.

## **RECENT CHANGES IN FEDERAL TANF RULES**

In early 2006, Congress enacted changes to the TANF grant in the DRA that effectively increase the work participation rates. In June 2006, the U.S. Department of Health and Human Services (HHS) adopted new TANF regulations to implement the DRA. These new requirements will make it harder for states to meet the work participation rate requirements. If states do not meet these requirements, they face a financial penalty equal to 5% of their block grant (equivalent to \$24 million for Texas) in the first year, and increased penalties in subsequent years.<sup>8</sup>

### *How are the work participation rates calculated?*

States are required to engage 50% of all TANF families, and 90% of two-parent families, in work activities. This is known as the "work participation rate." The work participation rate refers to the share of TANF recipients who are participating in approved work activities for a set number of hours each week. In single-parent families the adult recipient must be engaged in approved work activities for an average of 30 hours per week to meet the work requirement. In two-parent families the adults must work a combined 35 or 55 hours per week, depending on whether their children receive child care.

The work participation rate is calculated with a simple fraction: at the bottom, in the "denominator," are the *families who are included in the work rate calculation under federal law*; at the top, in the "numerator," are the *families who are meeting the work requirement*. Most families are included in the work participation rate

<sup>8</sup> This penalty structure existed in prior law and has not changed. States can also undergo a corrective compliance plan to qualify for a HHS waiver if HHS finds that the state has a "reasonable cause" for not meeting the work rates.

calculations, with limited exceptions. States have the flexibility to establish exemptions from the individual work requirement, but they are not permitted to remove these families from the denominator.

States also receive a “caseload reduction credit,” which they can use to lower their work participation rate targets. For every percentage point that a state reduces its caseload, it can reduce its work participation rate by one percent.

### *What changes did the new rules make to the work participation rates?*

- **The base year for calculating the caseload reduction credit was changed.**

States are still required to meet the 50% work participation rate for all families and 90% rate for two-parent families. However, the DRA changed the base year for calculating the caseload reduction credit from 1995 to 2005. Nationwide, caseloads declined so dramatically following welfare reform that most states were able to significantly reduce their work participation rate targets and avoid financial penalties. These massive caseload declines obscured state performance by substantially adjusting their federal targets. The revised caseload reduction credit methodology makes it more difficult for states to achieve the federal targets. In fiscal year 2004, the nationwide all-families work participation rate was 32%. Only 12 states met or exceeded the 50% all-family rate. Texas’ work participation rate was 34% in 2004.

- **The number of families that states must include in their work participation rate calculations was increased.**

Under prior law, certain adults were excluded from a state’s work participation rate calculations. The new rules eliminate many of these exclusions, thereby increasing the number of families that states must engage in work in order to meet their participation targets.<sup>9</sup> The following adults are now included in the denominator for the purposes of calculating a state’s work participation rate:

- 1) *All adults receiving TANF or MOE-funded assistance, with the exception of parents caring for a disabled family member not attending school fulltime.* Under prior law, families who received assistance paid for with state maintenance-of effort funds were not subject to many of the TANF requirements, including the work requirement. Texas currently uses MOE funds to provide assistance to two-parent families, which means the state must comply with the 90% work participation rate or use non-MOE state funds to serve this portion of the caseload.
  - 2) *All parents living with children who receive TANF or MOE-funded assistance, with the exception of parents on Supplemental Security Income (SSI) and undocumented immigrants.* Under prior law, states did not have to include any child-only cases in their work participation rate calculations and generally did not require the adults in these families to work as a condition of receiving TANF for the children in their households. Preliminary estimates from state officials suggest that 5,000 to 6,000 parents in child-only cases will now be included in Texas work participation rate calculations, increasing the denominator by almost 30%.
- **The work activities that count toward meeting the work requirement have been severely restricted.**

Under prior law, states had broad authority to define the activities that counted toward the work participation rate requirements within certain parameters. The purpose of this flexibility was to enable states to design appropriate employment services tailored to meet the needs of individual families.

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<sup>9</sup> The regulations established the concept of a “work-eligible” individual. Most work-eligible individuals are now included in a state’s work participation rate, with two exceptions: parents with a child under 12 months (subject to a 12-month *lifetime* limit) and individuals who have been sanctioned for failure to comply with the work requirement (limited to 3 months within a 12-month period). These exclusions from the participation rate calculations existed in prior law and have not changed.



The new rules narrowly define the allowable work activities and impose rigid requirements related to the number of hours TANF recipients must participate in these activities. For example, the regulations limit the extent to which activities designed to address barriers to employment—such as substance abuse treatment, mental health counseling, physical therapy, and English as a Second Language (ESL) classes—count toward the work requirement. The rules also impose significant restrictions on education and training programs designed to help recipients advance in the workforce. Under the new rules, states will no longer have the flexibility they need to design effective employment programs, particularly for families that face serious barriers to employment.

### *Can Texas meet the federal work participation requirements?*

Texas may face less difficulty than other states in meeting the work participation rates, largely because caseloads have declined considerably since 2005 compared to other states. Nationwide, caseloads fell only 7% between June 2005 and June 2006, compared to 18% in Texas. Only six other states experienced larger caseload declines than Texas during this period. Texas will be able to use these caseload declines to reduce its work participation targets, as it has done in previous years.

In Texas, the current overall (“all-family”) work participation rate is 41%, with a two-parent rate of 63%. However, the addition of the child-only cases is expected to reduce each rate by around 10%.<sup>10</sup> The Texas Workforce Commission is claiming an overall caseload reduction credit for fiscal 2007 of 18.8%, reducing the all-family rate requirement from 50% to 31.2%. For its two-parent caseload, TWC is claiming a 33.0% caseload reduction credit, reducing the requirement for these families from 90% to 57%. Assuming that the preliminary estimates of child-only cases are correct, Texas may be able to meet the work participation rate target for all families, but is likely to fall shy of meeting the two-parent family rate. However, Texas will only be able to meet the all-family rate now and in the future by continuing to pursue policies like the full-family sanction that significantly reduce caseloads. These policies, as explained above, come at the expense of vulnerable families and undermine Texas’ goal of moving welfare recipients into the workforce and out of poverty.

	All families	Two-parent families
Actual work participation rate	41%	63%
Estimated work participation rate with child-only cases included	31%	52%
Caseload reduction credit for 2007	18.8%	33.0%
Federal work participation rate requirement	50%	90%
<b>Rate that state must meet to avoid penalties</b>	<b>31.2%</b>	<b>57%</b>

### *What strategies are other states considering to meet the work participation rates?*

To comply with federal participation rates, most states are looking for ways to increase the number of TANF recipients meeting work requirements (the numerator) and/or decrease or stabilize the number that they are required to include in their work participation rate calculations (the denominator). According to the National Conference of State Legislatures (NCSL), states are considering three basic strategies to make progress towards compliance with the new TANF requirements. Though states could adopt any or all of these strategies to increase their work participation rates, a one-sided approach to compliance could come at the expense of vulnerable families. The challenge for states is to develop policies that help them meet federal requirements while improving outcomes for the poor families TANF is intended to help.

<sup>10</sup> HHSC has not yet been able to identify which child-only cases will need to be included in Texas’ denominator. Until this is determined, the Texas Workforce Commission will not be able to calculate its exact work participation rates.



- **Work engagement and enforcement**

This is a two-pronged approach designed to increase the number of TANF recipients engaged in countable work activities, while forcing recipients who are unlikely to comply off of the program through stricter rules or better enforcement of existing work rules. Texas, for example, might consider eliminating the current work exemptions for people with disabilities as a means to increase the number of recipients engaged in work. Combined with a robust effort to develop effective programs to help people with disabilities gain the skills they need to succeed in the workforce, this approach could work. However, given the narrow definition of work activities in the federal rules and Texas' work-first approach, it is more likely that these families would be sanctioned for failure to comply with work rules and ultimately be forced off cash assistance. Although this would help Texas meet its work participation requirements by reducing the number of families in its denominator, such an approach would come at the expense of vulnerable families.

- **Take-out strategy**

This strategy seeks to remove from the work participation rate calculations recipients who face barriers to employment and/or who need services that do not count toward meeting the federal work requirement. Under this approach, states divide TANF recipients into two categories: those likely to meet federal work requirements and those unlikely to meet the requirements. States then provide assistance to those recipients unlikely to meet the requirements with non-MOE state funds. This approach would help Texas maintain the current exemptions for persons with disabilities. It could also be used to provide assistance to two-parent families without fear of penalties for failure to meet the 90% work participation rate. Though this approach meets the "do-no-harm" test by ensuring continued assistance to the most vulnerable families, it could require additional state dollars or, at a minimum, a reallocation of current TANF federal, MOE, and non-MOE state spending.

- **Add-in strategy**

This option would enable states to boost their work participation rates by providing post-employment assistance to TANF recipients after they have found employment. Under Texas' current policy, most families become ineligible for TANF cash assistance shortly after they find a job. Extending some form of post-employment assistance to these families would serve two purposes. It would support their efforts to succeed and advance in the workforce, thereby reducing recidivism. It would also help Texas meet its federal work participation rate by keeping more working families in the denominator.

## **PROPOSALS FOR A NEW WELFARE-TO-WORK APPROACH**

The Center for Public Policy Priorities has developed a plan based on the strategies outlined above to help Texas meet federal requirements while improving outcomes for TANF recipients. These policy changes are designed to increase the proportion of TANF recipients who are working, reduce recidivism by supporting families after they enter the workforce, and ensure ongoing assistance to families who face the greatest barriers to employment. Some of these changes would require additional resources; others would require a shift in the method of financing other TANF and GR-funded services. For the changes that do require additional funding, we propose using a portion of the \$128 million in surplus federal TANF funds projected to be available at the end of the 2008-2009 budget cycle.

### *Improve outcomes for TANF recipients by developing a post-employment work support program.*

Texas currently disregards 90% of the earnings of TANF recipients for up to 4 months to enable them to continue to receive TANF assistance while they adjust to being in the workforce. This is known as the Earned Income Disregard (EID) policy. A post-employment work support program would build on Texas'

efforts to help welfare recipients move from welfare to work by supporting the harder and more important transition from work to self-sufficiency.<sup>11</sup> Recent research about four earnings supplement programs offers compelling evidence that providing ongoing assistance to former welfare recipients in low-wage jobs improves employment outcomes.<sup>12</sup>

Families eligible to receive post-employment assistance would include families who are leaving welfare due to earnings and who are working enough hours to meet the work requirement. The state would have to decide how much assistance to provide and how long to continue this assistance. The cost of a post-employment program would depend on these decisions, but could be funded with the surplus in federal TANF funds. The state would also need to evaluate the impact that a post-employment program would have on its caseload reduction credit. Although families receiving employment assistance would continue to be included in a state's TANF caseload, the reduction in recidivism rates might offset this caseload increase.

The assistance provided under a post-employment program must meet the HHS official definition of assistance in order for the state to continue to count these recipients in its work participation rate calculations. The term "assistance" is important because the major TANF program requirements (e.g., work requirements, time limits on federal assistance, and data reporting) apply only to families receiving assistance. In general, assistance is defined as "payments directed at ongoing, basic needs." Short-term, nonrecurring benefits that do not extend beyond 4 months are excluded from the definition of assistance.<sup>13</sup>

Nine states have either developed or are considering similar post-employment programs. In these programs the benefits range from \$10 to \$200 per month and are generally provided for at least 6 months. For example, Arkansas' Career Pathways and Work Pays Programs, which is considered a national model for improving training and wage outcomes for TANF families, includes "wraparound" services and programs that put TANF recipients on a career path and reward recipients for continuous employment.<sup>14</sup>

In addition to a post-employment program, the state could increase the number of months a family qualifies for the Earned Income Disregard, which would increase the Texas' work participation rate by keeping participating families in the Choices program for a longer period of time. In its staff report to the 80<sup>th</sup> Legislature, the Legislative Budget Board (LBB) discusses increasing the EID from 4 to 6 months as a means to "increase the participation rate...while providing more time for families to achieve economic independence."<sup>15</sup>

### *Increase funding for the Self-Sufficiency Fund.*

The Self-Sufficiency Fund is a customized training program designed for TANF recipients and funded

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<sup>11</sup> Texas currently requires local workforce boards (which administer the Choices program at the local level) to *offer* post-employment services, including job retention, career advancement, and reemployment services, to current and former TANF recipients "who are employed, but require additional assistance in retaining employment and achieving self-sufficiency." (40 TAC, §811.51) However, the legislature has never provided specific funding for this purpose and does not enforce or monitor compliance with this requirement.

<sup>12</sup> "Does Making Work Pay *Still* Pay? An Update on the Effects of Four Earnings Supplement Programs on Employment, Earnings, and Income," Charles Michalopoulos, MDRC, August 2005. (<http://www.mdrc.org/publications/414/execsum.html>)

<sup>13</sup> Other benefits that are excluded include child care, transportation, and other supports provided to employed families; Individual Development Account (IDA) benefits; refundable earned income tax credits; work subsidies to employers; and services such as education and training, case management, job search, and counseling. A summary of the definition of assistance is available in HHS' preamble to the TANF regulations; see <http://www.acf.hhs.gov/programs/ofa/exsumcl.htm>.

<sup>14</sup> For more information on Arkansas' program, see [http://www.goodfaithfund.org/pdf/pub\\_pp/pp\\_v27\\_6\\_06.pdf](http://www.goodfaithfund.org/pdf/pub_pp/pp_v27_6_06.pdf). For more information about post-employment programs and strategies, see Chapter 3 of "Implementing the TANF Changes in the Deficit Reduction Act: A Win-Win" Solutions for Families and States," Center on Budget and Policy Priorities and CLASP, May 9, 2006. (<http://www.cbpp.org/5-9-06tanf.htm>)

<sup>15</sup> Legislative Budget Board Staff Report, page 71.

through the TANF block grant.<sup>16</sup> From 2002 to 2004, the Self-Sufficiency Fund served about 2,500 trainees per year, helping them advance in their current employment or find better jobs. The Self-Sufficiency Program is a successful program that gives current and former welfare recipients the skills they need to maximize their earnings and advance in their careers. It also helps meet the needs of Texas employers who require workers with mid-level skills in order to compete globally.

Despite its proven success, the Legislature has cut the budget for the Self-Sufficiency Fund in half since 2003. The 79<sup>th</sup> Legislature provided \$3 million per year in funding for fiscal 2006-2007. A 50% increase in the Self-Sufficiency Fund would allow TWC to provide training services to an additional 1,500 TANF recipients in fiscal 2008-2009.

The LBB staff report recommends using a portion of the TANF surplus to expand education and training opportunities for TANF parents to help them achieve self-sufficiency and reduce recidivism, thereby “reducing future costs for cash assistance.”<sup>17</sup>

***Establish a solely state-funded program to provide assistance to families who need services that do not satisfy the federal work requirement.***

An assistance program funded exclusively with non-MOE state funds would help Texas avoid fiscal penalties to its TANF block grant without jeopardizing assistance to hard-to-serve families. With a solely state funded (SSF) program, Texas could remove hard-to-serve families from its denominator but continue to provide assistance and other supports to these families to help them meet basic needs and overcome their barriers to employment. An SSF program could be used to provide assistance to two groups:

- 1) *Families who are unlikely to meet the work requirement but who would be included in the state’s work participation rate calculations should they continue to receive TANF or MOE assistance.* For example, Texas could provide SSF assistance to TANF recipients with disabilities who are currently exempt from meeting the work requirement.<sup>18</sup> More broadly, SSF assistance could be provided to any recipient unable to secure stable employment quickly due to barriers to employment. These barriers might range from mental and physical health problems and low cognitive functioning to domestic violence, substance abuse, and unstable housing. Texas could continue to require certain SSF recipients to engage in state-approved work activities as a condition of receiving TANF, but would have the flexibility to offer services to these families that fall outside of the federally approved work activities.
- 2) *Two-parent families:* Although many of these families can and do meet work requirements, it is unlikely that Texas will be able to meet the 90% work participation rate requirement for two-parent families. Approximately 25% of two-parent families are currently exempt from meeting work requirements under state rules. Texas could remove these families from its denominator and place them in an SSF program. Two-parent families with low barriers to employment could remain in the regular TANF cash assistance program. The LBB staff report recommends using non-MOE state funds to provide cash assistance to two-parent families to avoid the federal penalties related to not meeting the work participation rate for these families.<sup>19</sup>

Although Texas would have to use non-MOE state funds to pay for SSF assistance, establishing an SSF program would not necessarily require new dollars, but rather a “swap” in the funding of existing

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<sup>16</sup> Though established primarily to help current and former TANF recipients who generally have extremely low earnings, recipients may have earnings up to 200% of the federal poverty level (\$33,200 for a family of three in 2006).

<sup>17</sup> Legislative Budget Board Staff Report, pages 66 and 74.

<sup>18</sup> The SSF program could also cover persons caring for disabled family members who *are* in school full time. Federal law excludes from the denominator parents caring for disabled family members who are *not* in school full-time, so Texas would want to continue to serve these families with federal TANF funds.

<sup>19</sup> Legislative Budget Board Staff Report, pages 65 and 71.

expenditures. There are two options the 80<sup>th</sup> Legislature could consider:

- **Option 1:** Use state expenditures that previously were claimed as MOE to fund the SSF program. Then, identify existing state or local expenditures (that do not meet the definition of assistance) that *could* be claimed toward the state's MOE requirement but are *not* currently claimed. Then, claim these expenditures toward the MOE requirement.
- **Option 2:** Identify existing state expenditures (that do not meet the definition of assistance) that could be funded with the federal TANF block grant. Then, use federal TANF funds previously used to provide basic assistance to families in the regular TANF program to fund these state expenditures. Use the freed-up state funds to pay for the SSF program.

Under both options, Texas would need to identify state spending for purposes of the “swap” that does *not* meet the TANF definition of assistance. For example, Texas could claim more public pre-K spending toward its MOE requirement than it currently does. (If the benefit *does* meet the definition of assistance, then federal work, time limit, and data reporting requirements will apply to the program.<sup>20</sup>)

In developing the SSF program, the state should ensure that recipients receive all of the work supports for which they qualify and that are given to recipients in the regular TANF program, such as child care assistance, Food Stamps, and Medicaid.

### *Develop an “up-front” program to help families overcome barriers to employment.*

Parents often face barriers to immediate employment when enrolling in TANF. Unfortunately, Texas' work-first approach does not enable all families to address these barriers. An “up-front” program that certain TANF applicants could participate in before enrolling in TANF cash assistance would allow for a period of time to identify and address barriers to employment. Participants would receive assistance, usually in the form of a lump sum to cover a certain period of time,<sup>21</sup> to help them support their families while their barriers to employment are assessed. At this point, if the state deems an applicant to be work-ready, the family would be enrolled in the TANF cash assistance program. If at the end of the program the state determined that significant barriers to employment still existed, the family could be placed in the solely state funded program outlined above.

An up-front program serves as a preventive measure to help reduce the threat of future sanctions and increase TANF work participation rates. When parents are given time and assistance to prepare for steady employment, they are more likely to comply with the requirements if they move to the regular TANF program. Moreover, the “up-front” program may actually help some families become self-sufficient enough to avoid ongoing cash assistance altogether.

Texas currently provides a One-Time TANF (OTT) payment of \$1,000 as an alternative to ongoing cash assistance. To qualify for OTT, applicants must meet TANF requirements and be facing a short-term crisis. Families that receive an OTT payment are barred from receiving TANF cash assistance for 12 months. In fiscal 2004, 12,264 families received OTT, accounting for less than 11% of the TANF caseload that year. Texas' current OTT program could be expanded to encompass the up-front program.

To ensure that participants in an “up-front” program are not at a disadvantage compared to those enrolled in TANF, the state should consider several potential risks.

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<sup>20</sup> For more information about these two approaches and additional details on solely state-funded programs, see “Designing Solely State-Funded Programs: Implementation Guide for One “Win-Win” Solution for Families and States,” Liz Schott and Sharon Parrott, Center on Budget and Policy Priorities, December 7, 2006.

<sup>21</sup> The period of time should not exceed four months in order to avoid meeting the definition of assistance.

- The “up-front” program should not inadvertently act as a barrier to receiving regular TANF. There must be a seamless process for transitioning to the regular TANF program upon leaving the “up-front” program. For example, up-front participants should be shifted automatically to on-going assistance, without the burden of filling out a new application.
- The state should ensure that up-front participants receive all of the work supports for which they qualify and that are given to recipients in the regular TANF program, such as child care assistance and Medicaid.
- The state should exclude “up-front” lump-sum payments when calculating the benefits for other programs such as Food Stamps.

For an up-front program to help Texas meet its work participation rate, the state must structure the program so that the participants are not receiving TANF or MOE-funded services that meet the definition of assistance, which would trigger all federal TANF requirements. Texas could accomplish this either by funding the program with non-MOE state funds or by using TANF or MOE funds to provide services that do not meet the definition of assistance.

***Improve sanction policies to help families comply with program requirements and avoid unfair penalties.***

Texas should reform its sanction policies to 1) improve the process for identifying recipients who have “good cause” for not complying with program requirements, and 2) help families who have been sanctioned comply with program rules so they can continue to receive the work supports provided by TANF.

- **Improve good-cause policies and procedures**

Any sanction policy designed to improve compliance needs to be accompanied by a good one-on-one case management approach and clear outreach to clients informing them how to come into compliance and avoid the penalty. For the good-cause process to effectively protect clients from being sanctioned improperly, it is essential that clients be well informed about this option and know what constitutes good cause. In addition, clients should be contacted by their caseworker before sanctions are imposed to make sure clients have received the notice and do not have a good reason for non-cooperation.

Research on Texas TANF recipients has found that parents are largely unaware of the reason they have been sanctioned and confused about why their assistance has been reduced.<sup>22</sup> The legislature should take the following steps to improve case management and the good-cause process:

- 1) Develop a pre-sanction review process that includes standard criteria that must be addressed and documented by caseworkers before imposing a sanction.
- 2) Allow 13 days after a sanction notice is *received* for a client to appeal the notice and request a fair hearing.<sup>23</sup> State law currently gives clients 13 days from the date a notice is *sent* to appeal the sanction.
- 3) Thoroughly examine good-cause practices in local offices to make sure caseworkers are contacting clients to determine whether they have good cause for violating a program rule.
- 4) Require TWC and the Health and Human Services Commission to collect data on the number of monthly requests for a good-cause exception and the number of times such exceptions are granted.

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<sup>22</sup> *Texas Families in Transition*, Texas Department of Human Services, January 2002.

<sup>23</sup> Before 2003, clients did have 13 days after a notice was received to request a fair hearing. The 78<sup>th</sup> Legislature changed the law as part of HB 2292, which made sweeping changes to health and human services programs in an effort to limit enrollment and reduce state costs.

- **Establish a post-sanction review process to identify barriers to compliance and help families comply with program rules**

The vast majority of families who are sanctioned simply lose their connection to TANF cash assistance and other work supports. Some of these families are sanctioned simply because they do not understand the program rules, while others may face serious barriers to employment that prevent them from complying.

Though extensive research has documented the problems faced by sanctioned families, no process exists in Texas to determine why individual families are sanctioned and help these families overcome their barriers to compliance. A post-sanction review process would enable caseworkers to identify why the family was sanctioned and determine the right course to help meet that family's needs, including helping that family come into compliance. Families identified as having severe and persistent barriers to employment could either be referred to the up-front program to assist them in addressing these barriers, or referred to the solely state-funded program.

This year, New York appropriated funding for a post-sanction program to help the state meet the new work requirements. The program provides intensive case management services to noncompliant families to help them become fully engaged in countable work activities. For example, workforce boards make home visits to sanctioned families to explain program requirements and conduct a more in-depth assessment of families' circumstances, including the identification of barriers to program participation. Caseworkers then use this assessment to develop necessary services to help the family become compliant.<sup>24</sup>

A post-sanction review process would help Texas improve its work participation rates by increasing the number of families complying with the work rules, and removing from the denominator families unlikely to be able to comply.

## **PROPOSED USES OF TANF IN THE 2008-2009 BUDGET**

TANF's primary goals as spelled out in federal law are to ensure that needy families can care for their children in their own homes or in the homes of relatives; help needy families become independent of government assistance through job preparation, employment, and marriage; reduce out-of-wedlock pregnancies; and to promote the formation of two-parent families. States are required to use their TANF block grant funds to meet these purposes.

For the 2008-09 biennial budget, state agencies submitted almost \$1.2 billion in funding requests for federal TANF dollars, including \$77 million in exceptional items. The appropriations bill as introduced (Senate Bill 1) totals \$1.065 billion in federal TANF dollars, leaving \$184 million in TANF federal requests unfunded, as well as a balance of \$128 million in unspent TANF by the end of 2009. (The LBB assumes, as current federal law requires, that \$53 million in an annual supplemental TANF grant received by Texas will not be continued beyond 2008.) The center will provide more detailed information about the proposed uses of TANF in SB 1 as they become available. The charts on the following page show Texas' historical TANF and MOE spending.

## **CONCLUSION**

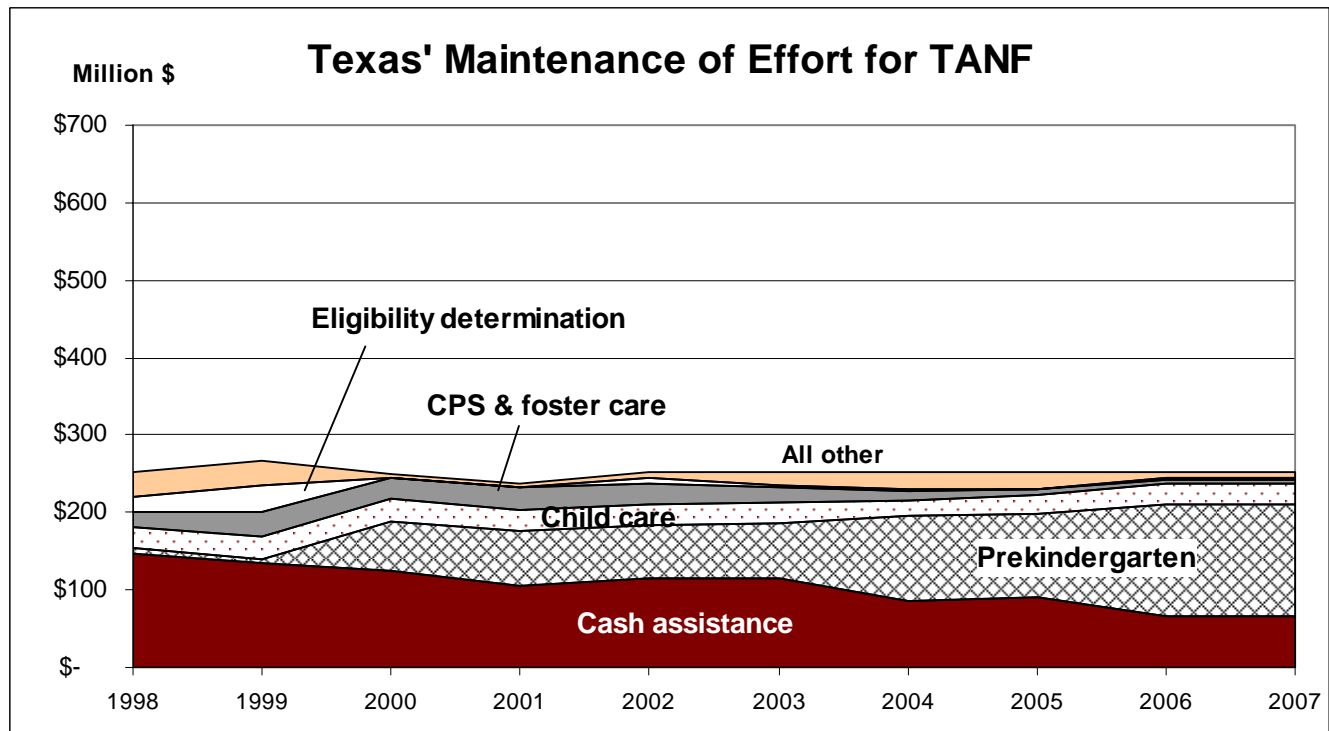
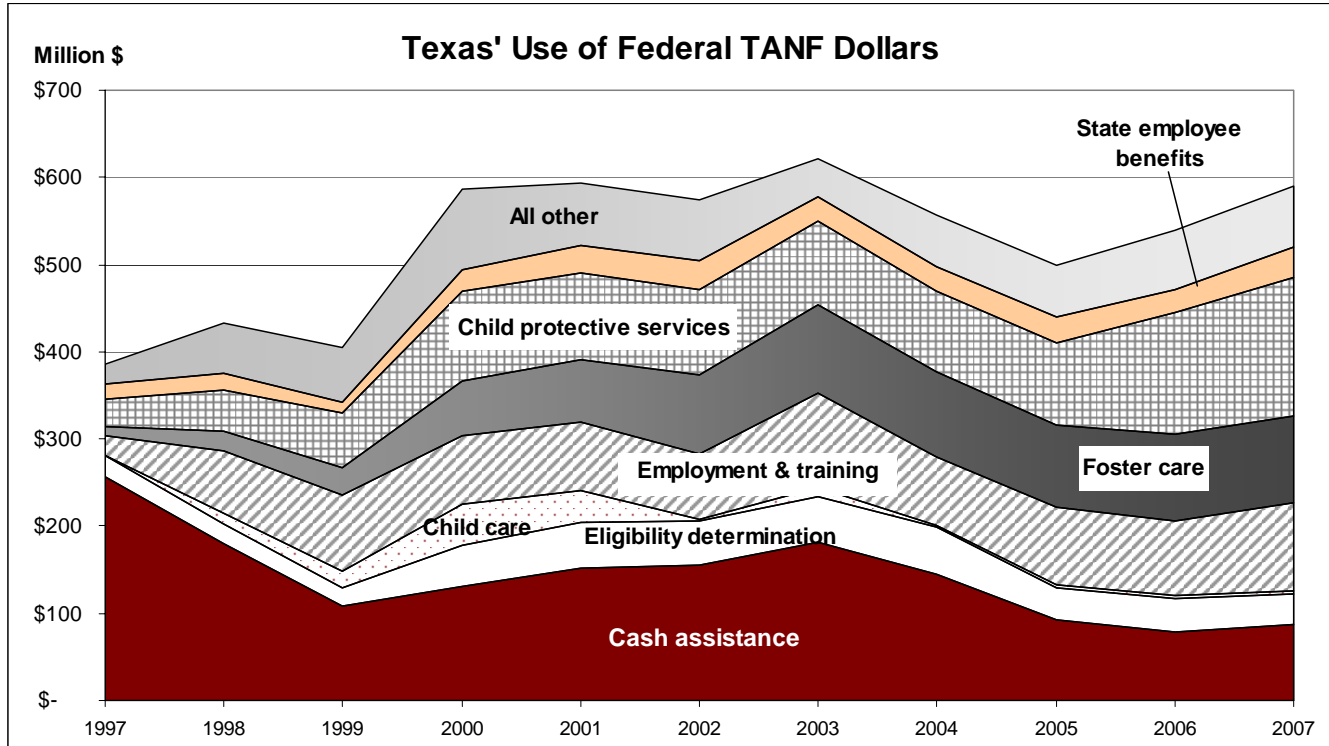
If approved by the 80<sup>th</sup> Legislature, SB 1 would continue spending almost half of federal TANF funds on child protective services, foster care, and other programs overseen by the Department of Family and Protective Services. As worthy as these programs are, they are not the core purpose of the TANF program. Moreover, they are back-end programs, necessitated by our failures on the front-end to address core TANF

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<sup>24</sup> For more information, see the memorandum from New York's state TANF agency posted at <http://www.otda.state.ny.us/directives/2006/LCM/06-LCM-11.pdf>.

issues. Texas needs to do better.

Without significant changes in the structure and goals of the TANF program, Texas will continue to fail the extremely poor and vulnerable families it is intended to help. The recent changes in federal TANF rules require a state response. Texas should use this occasion to examine its welfare-to-work policies and develop a strategic plan that refocuses on the core TANF goal of moving families out of poverty.





Federal Changes	Work Participation Rate	CPPP Proposals
<ul style="list-style-type: none"> <li>Restricts the work activities that count toward meeting the work requirement.</li> <li>Recalibrates caseload reduction credit, effectively increasing state work participation rate targets.</li> </ul>	 Hurts <i>Numerator</i>	<ul style="list-style-type: none"> <li>Provide post-employment assistance to TANF recipients meeting the work requirement.</li> <li>Increase funding for the Self-Sufficiency Fund (provides more meaningful work opportunities for Choices participants).</li> <li>Create an up-front program to identify and resolve barriers to employment.</li> <li>Develop fairer and more effective sanction and good-cause policies.</li> </ul>
<ul style="list-style-type: none"> <li>Adds child-only cases to work participation rate calculation.</li> <li>Includes recipients of MOE-funded assistance in work participation rate calculation.</li> <li>Recalibrates caseload reduction credit, effectively increasing state work participation rate targets.</li> </ul>	 Hurts <i>Denominator</i>	<ul style="list-style-type: none"> <li>Increase funding for the Self-Sufficiency Fund (reduces recidivism).</li> <li>Establish a solely state-funded program for two-parent families and TANF recipients with barriers to employment.</li> </ul>



**Center for Public Policy Priorities**

The Center for Public Policy Priorities (CPPP) is a nonpartisan, nonprofit 501(c)(3) research organization committed to improving public policies to better the economic and social conditions of low- and moderate-income Texans.

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