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An update on state and federal action from
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Welfare-to-Work Grants: New Funding Available to Texas and Local Communities

With the passage of the Balanced Budget Act (BBA) of 1997, $3 billion in new federal money is available to help states and communities move families from welfare to work. The state of Texas is eligible to receive up to $75 million of these funds in federal fiscal year (FFY) 1998 and at least $70 million[i] in FFY 1999. Additionally, local governments, local workforce development boards and private entities in Texas communities can compete for approximately $700 million to be allocated in FFYs 1998 and 1999.

Utilizing these grants will be complicated, but if Texas were to draw down its full allocation it could double the state's funding available for welfare-to-work efforts. The complications relate to three specific issues: only certain disadvantaged welfare recipients and non-custodial parents can be served with the grant funds; there are very specific requirements for allocation of these new grant funds among communities; and, only certain kinds of employment-based services can be funded by these grants.

A key issue for Texas will be providing the matching funds required to receive the state-level grant. The Legislature did not appropriate general revenue dollars to match these federal funds in 1998 and 1999, since the BBA passed after the close of the legislative session. However, there are still several options for Texas to draw down these federal matching dollars. The state could identify existing general revenue that might qualify as match as is or be reconfigured in such a way to qualify. Also, local communities could identify non-federal sources of funding for qualifying activites that could then be used as match. Furthermore, it is possible for local communities to access the competitive grant funds, which require no matching funds. The deadlines for requesting these funds are looming, so the state and local communities must act quickly to ensure Texas does not miss the opportunity to help more families move from welfare to work.

This *Policy Page* will highlight the welfare-to-work grant requirements, the options for the state to secure matching dollars, and ideas for how the state and local communities could wisely use these grants.

Welfare-to-Work Grants: The Basics

The Balanced Budget Act of 1997, signed by President Clinton on August 5, 1997, provides $3 billion for welfare-to-work grants to be divided evenly between FFYs 1998 and 1999. Administered by the U.S. Department of Labor (DOL), part of these funds will be set-aside for specific purposes (including performance bonuses, grants to Indian tribes, evaluations of the grants and evaluation of abstinence education programs). Of the remainder, 75% – approximately $1.1 billion each year – will be allocated by formula to states, and 25% – approximately $700 million – will be allocated in competitive grants to local communities.

Grants to States:

Under the formula grants to states, Texas will have access to $75.6 million in FFY 1998 and potentially $70 million in FFY 1999. To receive these funds, Texas must:

1. Provide $1 in matching funds for every $2 in federal funds received. Specifically, Texas must provide $37.8 million in matching funds in FFY 1998 and approximately another $35.2 million in FFY 1999 to draw down its entire allocation. This does not preclude the state from putting up less in matching funds; it would just receive fewer federal matching dollars and our "unused" funds would be reallocated. State matching funds must be in excess of the state's Temporary Assistance for Needy Families (TANF) maintenance of effort funds. These can be state or local dollars, but no more than one-half of the match may be in the form of in-kind contributions. States must expend of all their matching funds within the fiscal year of the grant award, although states have up to three years to expend their federal grant dollars. Funds that are not claimed by states in FFY 1998 will be reallocated across all states in FFY 1999.

2. Spend the funds—both federal and matching—on allowable activities and eligible participants (as described below).

3. Meet certain qualifications. Specifically, Texas must a) submit to the US Secretaries of Labor and Health and Human Services an addendum to Texas' TANF state plan; b) give the Secretary of Labor an estimate of the amount the state intends to expend under the welfare-to-work grant; c) cooperate with evaluation efforts; and d) meet TANF maintenance of effort requirements.

4. Devise a formula for allocating at least 85% of the grant across the state. At least half of the distributed funds must be allocated to areas based on their share of the number of poor individuals in excess of 7.5% of the total population.

The remaining distributed funds may be allocated based on the number of adults who have received TANF assistance for 30 or more months in an area and the number of unemployed in an area.

The remaining 15% of the grant can be spent by Texas on welfare-to-work projects that appear likely to help long-term TANF recipients enter employment.

6. Distribute the funds to Local Workforce Development Boards (LWDBs) unless the Governor designates an alternate agency. These LWDBs will have sole authority, in coordination with the chief elected official of the area, over the expenditure of grants funds in its areas. However, they must assure that the expenditures are coordinated with the states TANF expenditures.

Competitive Grants to Local Communities

Texas communities can compete for approximately $700 million in local welfare-to-work grants in FFY 1998 and FFY 1999. No local matching dollars are required for receipt of these grants. Applicants must submit a proposal developed in consultation with the Governor. They will be competing for these funds with other entities from around the entire country.

Eligible applicants include 1) Local Workforce Development Boards (the BBA specifically includes Private Industry Councils; however in Texas, LWDBs have subsumed the PICS); 2) local governments; or 3) private entities, applying in conjunction with a LWDB or local government. It appears that DOL is committed to reserve at least 10% of the available competitive funds for grants to nonprofit organizations that apply with local governments of PICS/LWDBs. This may be a great opportunity for some real innovation at the community level. The Secretary of Labor is required to give special consideration to cities with large concentrations of poverty and to rural areas.

Additionally, the Secretary is required to award grants based on the effectiveness of the proposal in: 1) moving the least job ready TANF recipients into unsubsidized employment, even in labor markets with a shortage of lowskill jobs; and 2) in expanding the base of knowledge about such programs.

The Secretary may consider the applicant's:

- historical success in moving individuals with multiple barriers into work;
- evidence of ability to leverage private, state and local resources;
- use of state and local resources beyond those required as matching funds for welfare-to work grants.;
- plans to coordinate with other organizations at the local and state level; and
- use of current or former TANF recipients as mentors, case managers or service providers.

Who Can Be Served

The BBA requires that the welfare-to-work grant funds (from both the state and local competitive grants) be spent on disadvantaged welfare recipients or non-custodial parents. The requirements split the funds into two pots.

A grant recipient must spent at least 70% of its grant funds on:

- individuals who are long-term welfare recipients (with 30 or more months of benefits receipt) or who face termination from TANF assistance in 12 months. These individuals must also face at least two of the following three barriers to employment: 1) lacking a high school diploma or GED and having low reading or mathematics skills; 2) requiring substance abuse treatment for employment or 3) having a poor work history; or
- individuals who are noncustodial parents of minors whose custodial parent meets the above criteria.

A grant recipient may spend up to 30 % of its grant funds on:

- individuals who are "recent" recipients of TANF assistance, or noncustodial parents, who have characteristics associated with long-term welfare dependence (such as school dropout, teen pregnancy, or poor work history).

Recent guidance from DOL has clarified that "recent" recipients of TANF include those individuals no longer receiving TANF assistance due to time limits.

Allowable Activities for both Competitive and Formula Grants

The purpose of the welfare-to-work grants is to provide transitional assistance which moves welfare recipients into unsubsidized employment providing good career potential for achieving economic self-sufficiency. The BBA specifically lists employment-based activities that can be funded with the grants to achieve this purpose. These are:

- community service or work experience programs;
- job creation through public or private sector employment wage subsidies;
- on-the-job training;
- job readiness and post-employment services (through contracts with public or private providers or job vouchers);
- job placement services (through contracts with public or private providers or job vouchers) (Any such contracts or vouchers must be structured so that at least one half of the payment occurs after the individual placed has been in the workforce for six months.);
- job retention services or support services (such as substance abuse treatment, child care, transportation, etc.) if such services are not otherwise available; and
- individual development accounts (IDAs).

Notably, services that are not "employment-based," such as education and vocational skills training, are excluded from this list, unless they are provided as post-employment services.

Timelines

States and local grant recipients have three years to expend grant funds. Any funds not expended within three years after the funds are provided must be returned to the Secretary of Labor. Given the short timeframe of the welfare-to-work granting program, the program's implementation is on a relatively fast track. In fact, "draft" Planning Guidance and Instructions have already been released by the Department of Labor (DOL) for the FFY 1998 state formula grants, and the grant applications for the competitive grants are expected to be out soon.

Timeline for Local Competitive Grants

The DOL Web site provides the following timeline information for the competitive local grant process.

- October 31, 1997: DOL will publish solicitation for grant application
- January 15, 1998: Grant applications due
- February, 1998: First Competitive Grants announced

For more information, check the Web site in the coming weeks.

Timeline for State Formula Grants

In order to receive formula funds, Texas must submit a plan in the form of an addendum to the state TANF plan. This plan must, among other things, describe how the state will use the grant funds, specify how funds will be distributed across the states, provide assurances that the funds will be spent in coordination with TANF spending, and estimate the amount of matching funds the state intends to provide. The DOL Web site provides the following timeline information:

- October 31, 1997: Regulations published
- December 12, 1997*: State plans submitted. (After this date plans will be reviewed in the order of submission.)
- December 30, 1997*: State plans accepted
- January, 1998: Grant awards announced

*(Dates with *s are considered "target dates.")*

Interaction with TANF and Time Limits

Technically, welfare-to-work grants are TANF funds. The new welfare-to-work grant funds, like TANF funds, are subject to an administrative cap of 15%. However, the Department of Labor, not the Department of Health and Human Services will administer the funds. As well, the funds are restricted to only those allowable activities listed above, therefore they cannot be spent on all the TANF-allowable options, and cannot be held in reserve for future years, as TANF funds can. However, they can be spent for up to three years after they are obligated.

A final key point is that receipt of (non-cash) assistance funded by welfare-to-work grants will not count as "assistance" under the five-year lifetime limit on welfare. However, if families are receiving cash assistance at the same time, those months do count toward the five year limit.

Miscellaneous Provisions

Finally, the BBA included other provisions related to these grants including non-displacement protections, nondiscrimination provisions, grievance procedures, and application of health and safety standards.

Information on both state and local grants can be found at: http://wtw.doleta.gov/resources/.

Options for Drawing down the Federal Matching Funds

It is our understanding that the governor's office is working with the LBB, TWC, THHSC and others to discuss the various options for accessing these grant funds. Efforts are underway to ensure that the state meets the appropriate deadlines for submitting a plan for accessing the funds. As far as specifically identifying what funds will be used to draw down the grants and just how much will be available, little detail is available. In assessing the FY 98-99 budget, it is not readily apparent that there are any general revenue funds which could easily be used to draw down these grants. In fact, decisions related to the utilization of the TANF block grant in the budget reduced the amount of general revenue in programs that would be matchable. However, reallocating some funds or reconfiguring some programs might free-up general revenue which could be utilized. Even if this is done there will certainly not be $37.5 million identifiable in the existing budget and all indications are that the focus of funding sources is shifting away from the state budget to funding options at the local level. One exception is the Smart Jobs fund at the Department of Economic Development. Smart Jobs is a training program supported by a percentage of unemployment insurance taxes and is typically utilized by employers to upgrade the skills of existing employees. This program has been mentioned as a possible source of general revenue for matching the welfare-to-work grants though the programmatic details of such an approach have not been clarified and it is not yet clear whether this

So is There Really no GR to Draw Down the Federal Funds?

Despite the fact that the existing state budget may provide very limited options for general revenue that can be utilized directly to draw down the federal grant funds, the state is not really short of funds. In fact, the state economy continues to perform so well that we are already collecting more in tax revenue than projected, and it is assumed that we will end this biennium with nearly $1 billion in revenue **above what was appropriated.** This means that the state currently has enough revenue to not only draw down its entire allocation of welfare-to-work funds but also to access the more than $500 million available to Texas through the child health block grant. Because these funds were not allocated in the FY98-99 appropriations bill, they are not readily available. However, they could be accessed; all it would take would be the political will to find a way to appropriate them. It will be unconscionable for Texas to turn away from these tremendous new funding opportunities that could dramatically impact two issues in which the state has historically failed to address adequately. We have the highest percentage of uninsured children in the country and we are struggling to implement welfare reform without the investments in welfare-to -work activities characterized by successful states.

would be possible or desirable.

Public statements by legislators and TWC commissioners have implied that the state is turning to the Local Workforce Development Boards to identify their own sources of local funds that could be used to draw down the federal grant funds. The state's child care program already has many local agreements that utilize local program dollars to draw down federal child care funds, so there is a model for this approach. Additionally, local communities are likely to be logical places to look for "in-kind" efforts that could be utilized to draw down funds. It will be important to think broadly in identifying potential matching dollars. It is unlikely that there will be large sources of non-federal funding supporting job placement activities at the local level, but there may be some post-employment services and support services being provided by local entities that could be utilized. Also, public job creation strategies are among the programs that can be supported with the funds, and to the extent that economic development and community improvement activities are being supported by local revenue, it may be possible to build a job creation strategy into existing efforts that could draw down federal support. Whatever strategies are employed to identify matching funds they must happen quickly if the state is to take advantage of the funds available in this fiscal year.

Using the Welfare-to-Work Grant Funds Wisely

As mentioned above the federal welfare-to-work grants could double Texas' existing welfare-to-work efforts. Perhaps just as important is the fact that accessing these funds could dramatically improve the quality of the program and help it move from very short term strategies to those that focus on supporting real self-sufficiency for TANF families and expanded economic opportunities for disadvantaged communities. Even though the grants cannot be spent directly on education and job training, the utilization of the additional funding could free-up the existing JOBS program to take a more qualitative approach to assisting TANF families. Currently, budget pressures and a focus on caseload reduction have resulted in a JOBS program almost entirely focused on job placement through its "work first" approach. Welfare-to-work grants could expand these efforts and allow additional funds to be targeted to adult basic education, literacy, work experience programs and actual skill development and job training. The welfare-to-work grants offer other avenues as well.

Among the types of activities that can be supported with the grants there are three that we believe could be the most beneficial to clients and low-income communities. They are: the direct creation of wage-paying jobs for TANF recipients through private nonprofit or public agencies; the development of programs serving noncustodial parents; and, job retention and post-employment services.

Job Creation As more and more TANF recipients are pushed into the workforce the availability of jobs will become a critical issue. In areas of the state with high unemployment this is already a challenge. Strategies that not only focus on preparing recipients for work but also seek to actually create new work opportunities can build long term success for the estate's welfare-to-work effort. The new welfare-to-work grants could be utilized with particular effectiveness in the Texas/Mexico border region as a way to create community jobs and to build upon various economic development and community improvement initiatives already under way.

Noncustodial Parents Welfare-to-work grants could also support work programs for non-custodial parents of children in TANF households. This is a population that has received very little attention in recent years. As child support programs become more aggressive about enforcing and collecting child support, they are finding that many of the non-custodial parents of TANF children are themselves low-income workers, if they are even employed. Efforts to build programs to increase their employment and wages can have a very positive effect on the economic security and stability of low-income families.

Post Employment Services Sixty percent of Texas TANF recipients have worked in the year or two prior to their seeking cash assistance. Many recipients have experienced a long history of cycling in and out of welfare and low wage work. Programs that help recipients not only find work but to retain it have shown great success in curtailing the cycling back to public assistance. Additionally, research shows that once a TANF recipient becomes stable in her first or second job she has a much better chance of staying employed over the long run and increasing her wages. Other post-employment services might include education and skill training directly related to the work a recipient has found. Many recipients will only find part-time work and additional services could be offered during their non-work hours which could help them become more competitive and stable in the labor market.

Clearly the new federal grants offer a unique and time-limited opportunity to expand and improve our current welfare-to work programs. The state must make every effort to draw down its entire allocation, and we are hopeful that this will be a primary task of the newly appointed interim committee that will be studying state welfare reform and welfare-to-work efforts.

[i] This is a preliminary estimate. Texas' FFY 99 allocation is dependent upon the amount of funds that remain unspent after FFY 98.