



TANF Reauthorization Texas' Choice: The High Road or the Low Road?

As part of budget reconciliation, Congress recently reauthorized Temporary Assistance for Needy Families (TANF) after numerous short-term extensions. The reauthorization makes several programmatic changes while providing a minimal increase in child care funding. The U.S. Department of Health and Human Services will issue new TANF regulations by June 30 and revised state participation requirements will go into effect beginning October 1. TANF reauthorization provides an opportunity for states to upgrade their TANF work-based programs to deliver better workforce services, engage more recipients in education and training, and improve outcomes. The question is what Texas can do to help families acquire skills and attain self-sufficiency.

Transforming TANF as We Know It

TANF was established in 1996 to overhaul the AFDC (Aid to Families with Dependent Children) program, which provides cash assistance for needy families.

The Deficit Reduction Act of 2005 (SB 1932) was signed by President Bush in February 2006 and reauthorizes TANF through 2010. The new law requires most states to increase the share of TANF recipients engaged in countable work activities such as community service or job training. Several provisions will substantively change the manner in which states must operate their TANF programs, including:

- *Revised caseload reduction credit methodology:* States will receive credit for caseload decline since 2005, recalibrating the base year from 1995;

- *Separate State Programs:* Families receiving non-federal TANF cash assistance—including two-parent families, will now be included in the participation rate calculation;
- *Elimination of state bonuses:* “High Performance” and “non-marital birth reduction” bonuses will be terminated.

The legislation maintains annual TANF block grant funding at \$16.5 billion per year, and provides a small increase of \$200 million per year in child care funding, about \$69 per month for each additional family now required to participate. Currently, Texas receives \$486 million through the annual TANF block grant, plus \$53 million in supplemental funding. While the budget reconciliation bill reauthorizes the main block grant funding levels through 2010, all supplemental funding will expire after 2008. Finally, the legislation authorizes funding for two new programs: *marriage-promotion* and a *responsible fatherhood* program.

The new law still requires states to meet a 50% participation rate for all families and a 90% rate for two-parent families. However, these standards will be extremely difficult to achieve because of the revised caseload reduction credit methodology.

The law leaves unchanged the penalty structure for noncompliance in meeting the all-families participation rate. This penalty includes a maximum 5% reduction in block grant funding (equivalent to \$24 million for Texas) for the first year, and increases penalties in subsequent years. States can also undergo a corrective compliance plan to qualify for a HHS waiver if the state has “reasonable cause” for not meeting the work rates.

For Fiscal Year 2004, the nationwide all-families participation rate was 32%, and only 12 states met or exceeded the 50% all-families rate. Texas’ all-families rate of 34% presents a host of challenges for full compliance with federal law.

Can Texas Meet the New Requirements?

Following TANF’s enactment in 1996, Texas and other states experienced major TANF caseload declines that saved them from facing financial penalties for not meeting the stated participation rates. These massive caseload declines obscured state performance by substantially adjusting their federal targets. But with 2005 as the base year for determining caseload reduction, Texas should not expect to receive a substantial caseload reduction credit, as it has in years past.

For the current year, Texas achieved a 51-point caseload reduction—reducing Texas’ effective participation target to 0%. In other words, Texas’ caseload reduction credit virtually eliminated the 50% participation target for the federal TANF program. Without a caseload reduction credit, Texas will likely have to meet both “hard” participation targets as outlined in TANF

reauthorization: 50% for all families and 90% for two-parent families.

More significantly, TWC’s “pay for performance” and full-family sanction policies that result in caseload decline cannot be included in the calculation of the credit. Therefore, statutory and regulatory efforts to restrict eligibility criteria and other punitive efforts will be ineffective in moving Texas towards compliance.

On average, the state’s two-parent TANF program enrolls fewer than 2,700 families, or about 7% of the statewide TANF caseload. This figure represents a 60% caseload reduction since August 2003—the final month prior to TWC’s “pay for performance” policies took effect.

Operated by TWC, the TANF Choices program includes a “work-first” spectrum of workforce services for cash assistance recipients. These services include job search, job readiness, post-employment, and other work-based support services. While approximately 24% of the two-parent caseload is exempt from participating in the Choices program, they remain part of the calculation for determining federal performance targets. As a result, only 2,000 mandatory, or non-exempt, families are eligible to receive services and participate in countable work activities.

According to TWC, full engagement of the remaining two-parent population would produce a 54% federal two-parent participation rate. Therefore, it becomes mathematically impossible for Texas to reach the 90% federal target without significant changes to its TANF two-parent population and/or HHSC’s exemption rules. The single-parent caseload scenario is similar, further complicating efforts to reach compliance for the all-families rate.

Who is Exempt from Participation?

Qualifying TANF recipients can be exempt from participating in TWC’s Choices

Program if they meet certain criteria. In particular, HHSC exempts TANF recipients from if they are:

- Age 18 or younger;
- Age 60 or older;
- Single grandparent, age 50 or over, caring for a child under age three;
- Needed in the home to care for an ill or disabled child;
- Unable to work because of a mental or physical disability;
- Single parent or caretaker relative caring for a child under age one; or
- Needed at home to care for a disabled adult in the household.

According to TWC, the majority of work exemptions stem from personal disability and caretaker disability situations. Under current policies and practices, local workforce staff members have the authority to grant good cause for temporary exemptions from work activities. Work-exempt TANF recipients with severe disabilities could be better served by enrolling in the federally-funded Supplemental Security Income (SSI) program. Individuals on SSI receive \$579 per month and are income-eligible up to 73% of the federal poverty line. By comparison, the income cutoff for TANF eligibility is about 14% of the federal poverty line, with a maximum TANF grant for a family of three at \$223 per month.

Potential Options for Compliance

In order to comply with federal participation rates, many states will seek to increase their “numerator”—a figure representing the number of TANF recipients meeting work requirements—while seeking to decrease or stabilize their “denominator”—a figure representing the total number of TANF families in a state’s all-families rate. In FY 2004, Texas had nearly 15,700 participating families (numerator) out of almost 46,000 families (denominator) in the all-families rate, thereby producing a 34% participation rate.

According to the National Conference on State Legislatures (NCSL), states are considering three basic types of strategies to make progress towards compliance with the new TANF requirements. States could adopt any or all of these strategies to increase their federally mandated participation rates. Nearly all states are exploring several options while awaiting guidance from HHS about new program rules and regulations.

Work Engagement and Enforcement

This approach includes stricter sanctions, more diverse community service activities, and new methods to enforce existing work rules. Through this approach, a large percentage of families would be pushed from the rolls because of serious barriers that prevent them from complying with the stricter policies.

A smaller percentage of recipients would probably become fully engaged, and become part of the “numerator.”

This option could also include a revision of current work exemptions to force high-barrier populations to participate. If these recipients are unable to participate, they would probably face sanctions, and eventual removal from the program. More importantly, these individuals would be removed from the denominator, thereby increasing participation rates.

Takeout Strategy

This approach is likely to apply more to the two-parent family population and would seek to remove recipients from the rolls that are unlikely to meet their weekly work requirements. Potential options might include:

- Separating recipients into two categories: those likely to meet work requirements and those unlikely to meet requirements. Establish separate, state-funded program for recipients unlikely to meet requirements and use federal TANF

- dollars to provide services to those individuals likely to engage; or
- Removing work-exempt populations and funding them exclusively with state funds.

Either approach would require new state funding.

Add-in Strategy

This option would enable relatively low-barrier and employed TANF recipients who are certain to meet work requirements to remain on cash assistance. Because they have found employment, albeit low-wage, TANF cash assistance can serve as a work support for parents with new, low-wage jobs or as a form of financial aid for individuals seeking to attain better jobs through education and training.

Another option might include designing and tailoring longer-term training programs or subsidized employment that would keep high-participating TANF recipients on the rolls for a longer time while acquiring valuable skills to achieve self-sufficiency.

Charting a High Road Implementation Approach for Texas' TANF Program

With fewer than 37,000 adult TANF recipients, Texas could craft a more personalized and intensive program built around skills development and certificate/degree attainment.

Currently, individuals leaving the TWC's Choices program earn slightly above minimum wage, with a system-wide average of \$6.34 per hour, working about 34 hours per week.

A high road TANF compliance strategy should include the following basic components:

- *Extending TANF benefits to more working families:* Texas' low eligibility levels severely narrow the serviceable population, thereby

making it harder to engage a higher percentage of recipients in work activities. Currently, only 7% of state's poor are enrolled in TANF, down from 22% in 1996.

- *Expanding opportunities for education and job training:* Texas could broaden its workforce-service approach to encourage more TANF recipients to undertake longer-term efforts, including adult literacy, ESL/GED, vocational education, and customized training programs.
- *Creating more transitional jobs for unsuccessful job seekers:* These community-service jobs would engage more parents in work activities while providing skills training and work supports.

Remaining Questions

- How will TANF regulations calculate child-only cases for the purposes of determining federal participation rates?
- How will HHS define an eligible work activity? How will education and training activities count towards participation rates?
- Will Texas take the high road to compliance by focusing on skill development travel the low road by doing things such as forcing parents of disabled children to perform community service to receive benefits?
- How will Texas and other states avoid stiff federal penalties if they fail to comply with federal law?

Federal Rulemaking Expected to Give States Additional Guidance

By June 30, the law requires the U.S. Department of Health and Human Services (HHS) to develop new federal rules related to participation rates. Among other issues, the agency is expected to determine how

education and training programs will count as TANF work activities.

For more information, see:

<http://www.cbpp.org/1-31-06tanf.htm>

<http://www.ncsl.org/statefed/humserv/TANFLTR0306.htm>

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