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Welfare Reform: An Issue Overview

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Welfare Reform: An Issue Overview

SUMMARY

As the 108th Congress opened, the 5-year TANF reauthorization bill passed by the House last year was being readied for reintroduction, effective for FY2004-2008, according to staff of the House Ways and Means Committee. The bill embodies concepts advanced by President Bush in February 2002, including a 40-hour work week for most TANF recipients and a requirement that states eventually engage 70% of recipients in a work activity (up from a general rate of 50% in current law).

Last May, on a largely partisan vote, 229-197, the House passed the Personal Responsibility, Work, and Family Promotion Act (H.R. 4737) to extend TANF on new terms from FY2003 through FY2007, but the Senate Finance Committee substitute bill, the Work, Opportunity, and Responsibility for Kids Act (WORK, also H.R. 4737), never reached the Senate floor. On several key issues, including work hours, work activities, and child care funding, the bills were far apart. Since October 1, TANF and related programs of mandatory child care, transitional medicaid, and abstinence education have been operating on temporary spending authority, now due to end on March 31. The American Public Human Services Association and the National Conference of State Legislatures (NCSL) have urged Congress to continue TANF for at least 3 years, through FY2006.

The Senate Committee bill, passed in late June, adopted the 70% work participation rate of the House bill. However, it rejected the House proposal for a 40-hour work week in favor of maintaining the current 30-hour general rule, and it proposed to enlarge the list of countable activities. President Bush charged that the Senate bill had work loopholes that made it a "retreat from success." In response to arguments that stiffer work rules would raise child care needs, both the House and the Senate Finance Committee last year proposed to increase mandatory child care funding. Over 5 years the increases were $1 billion in the House-passed bill and $5.5 billion in the Senate Committee bill (to 5-year totals of $14.5 billion and $19.1 billion, respectively). The Senate measure also would have increased supplemental grants and allowed states to give federally funded TANF to legal immigrants, regardless of date of entry. Both bills proposed to create marriage promotion grants and several other specialized grants, but their terms differed. For a side-by-side comparison of the two versions of H.R. 4737 (and current law), see CRS Report RL31541.

HHS reports that TANF work participation rates rose slightly in FY2001, to 34.4% for all families. The statutory required rate was 45%, but in 28 states caseload reduction credits reduced effective required rates to zero. June, 2002, national enrollment (latest available data) was 3% below that of June, 2001, but in 28 states caseloads topped those of last year. Food stamp enrollment climbed in spring to the highest level in almost 4 years.

Enacted 6 years ago, to replace Aid to Families with Dependent Children, TANF provides fixed grants ($16.5 billion yearly) for time-limited and work-conditioned aid.

Most Recent Developments

The 5-year TANF reauthorization bill passed by the House last year was being readied for reintroduction, effective for FY2004-2008, as the 108th Congress opened on January 7. The bill contains concepts advanced by President Bush in February 2002, including a 40-hour work week for most TANF recipients and a requirement that states eventually engage 70% of recipients in a work activity (up from a general rate of 50% in current law). Since October 1, after the original TANF law expired, TANF and related programs of mandatory child care, transitional medicaid, and abstinence education, have been operating on temporary spending authority, now due to expire March 31. TANF reauthorization reached an impasse in 2002. The bill approved by the Senate Finance Committee differed sharply with the House-passed bill on several key issues (including work hours, work activities, and child care funding) and never reached the Senate floor. On December 12, President Bush issued an Executive Order (EO 13729) to implement an expansion of charitable choice principles to virtually all social service programs aimed at helping people in need. The stated purpose of charitable choice rules is to allow religious groups to provide services on the same basis as any other nongovernmental provider "without impairing their religious character" or diminishing the religious freedom of the beneficiary.

Background and Analysis

Major Programs for Low-Income Families

AFDC/TANF national enrollment has been falling since 1994, but the number of families on cash welfare rose in 28 states from June 2001 to June 2002 (latest national data). The June 2002 caseload held 2.025 million families, down 3% from the year-earlier number and down 60% from the March 1994 record-high level (5.084). The food stamp caseload, which has been rising steadily since April 2001, reached 20.1 million persons in October, the highest number since January, 1998. 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 21.8 million in FY2000, but the number of enrolled parents fell from 9 million to 8.3 million (numbers are estimates). The Earned Income Tax Credit (EITC) is the largest form of income-tested federally funded cash aid for families. In August 1999 the Council of Economic Advisers estimated that about one-third of the 1996-1998 AFDC-TANF caseload drop was due to federal and state welfare policy changes, from 8% to 10% to the strong economy, 10% to the higher minimum wage, and from 1% to 5% to the lower real value of cash welfare benefits. The 2002 CEA report says research has found that time limits alone caused more than 10% of the 1993-1999 caseload decline.

FY2000 estimated spending for low-income children and their families by selected major income-tested programs that give cash, food, medical, and housing aid reached $154.3 billion (revised figure). Of the total, $51.3 billion (33%) was for cash aid, and $103 billion was for noncash aid (**Table 1**). The FY2001 figure for cash aid is not yet available, but the amount for noncash aid was $107.6 billion, up 4.5% from FY2000. For a breakdown of FY2000 overall spending on behalf of all population groups ($437 billion), see CRS Report RL31228.

Table 1. Estimated Income-Tested Outlays for Children and Their Families from Selected Major Programs, FY2000 and FY2001[a]

	Federal Funds ($ in billions)		State-local Funds ($ in billions)		Recipients[b] (in millions)	
	FY2000	FY2001	FY2000	FY2001	FY2000	FY2001
Cash aid	**$43.7**	**N.A**	**$7.6**	**N.A.**	**—**	**—**
(TANF)[c]	(6.9)	N.A.	(7.6)[d]	N.A.	(5.8)[e]	(5.5)[e]
(EITC)[f]	(31.9)	(32.3)	0	0	(19.3)	(19.3)
(SSI) (children only)	(4.9)	(5.0)	N.A.	N.A.	(.85)	(.87)
Food benefits	**26.9**	**27.5**	**1.0**	**—**	**—-**	**—**
(Food stamps)[g]	(14.6)	(15.0)	(1.0)	(1.0)	(13.4)[e]	(13.5)[e]
(Subsidized meals)[h]	(8.3)	(8.4)	N.A.	N.A.	(17.3)	(17.3)
(WIC)	(4.0)	(4.1)	N.A.	N.A.	(7.2)[e]	(7.3)[e]
Major medical aid	**30.2**	**32.6**	**N.A.**	**N.A.**	**34.3**	**36.9**
(Medicaid)[i]	(28.3)	(29.9)	(21.4)	(22.6)	(31.0)[e]	(32.3)[e]
(S-CHIP)[j]	(1.9)	(2.7)	N.A.	N.A.	(3.3)	(4.6)
Major housing aid	**23.5**	**23.9**	**0**	**0**	**3.8**	**4.1**
(Public housing and Section 8)	(19.5)	(19.8)	0[k]	0[k]	(3.7)[l]	(4.0)[l]
(Rural housing service programs)[m]	(4.0)	(4.1)	0	0	(0.1)[n]	(0.1)[n]

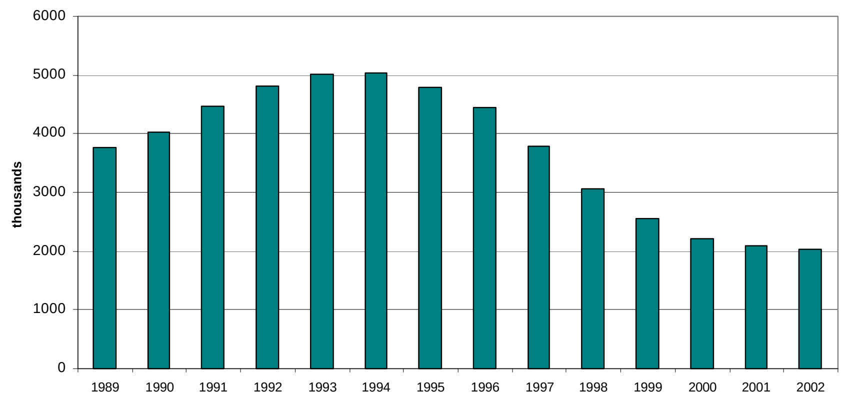
a. Includes administrative costs where available. Excludes education benefits, work and job training programs, Title XX social services, Child Care and Development Block Grant (CCDBG), energy aid, and numerous smaller programs.
b. *Caution*: Average monthly number of individuals, *except*: subsidized meals, estimated daily average participation in school meals and child care programs by children from lower-income families; Medicaid, *yearly total* estimates of enrollment; EITC, *yearly total* number of *families*; SSI, number of children in September, and housing, number of *households* at end of year.
c. Excludes outlays for work activities, child care, supportive services and other activities to promote TANF goals.
d. Spending countable toward the TANF maintenance-of-effort (MOE) requirement except expenditures that also could be counted toward the CCDBG MOE.
e. Includes parents. Child totals: food stamps, 8.8 million in FY2000, 8.8 million in FY2001; WIC, 5.4 million in FY2000, 5.5 million in FY2001; TANF, 4.3 million in FY2000, 4.0 million in FY2001; Medicaid, 21.9 million and 22.6 million, respectively.
f. Credit earned in calendar year preceding the fiscal year (example, CY1999 for FY2000). Direct payments, $27.6 billion for FY2000; $ 27.8 billion for FY2001. Reduced tax liability, $4.3 billion and $4.5 billion, respectively. FY2001 spending and recipient data are estimates.
g. Estimate. Includes Puerto Rico's nutritional assistance program. Does not include employment/training spending.
h. Estimate. Includes income-tested parts of school lunch, school breakfast, and child care food programs; also summer food service program. Excludes cost of commodities.
i. Spending estimates are from the April 2001 and March 2002 baselines of CBO. The federal funding share is estimated at 57% of total spending.
j. Spending estimates are based on state expenditure reports. Recipient counts represent the number of children ever enrolled during the year.
k. Localities accept below-tax payments in lieu of property taxes on public housing projects.

l. Based on estimated percentage of households with children: FY2000, public housing, 45%; Section 8, 70%; FY2001, public housing, 43%; Section 8, 51%.
m. Subsidized loans to low-income persons for homeownership (Section 502) and rental aid (Sections 515/521).
n. Represents housing units, each of which generally can accommodate one family. Assistance was provided to 87,423 families in FY2000 and 86,590 in FY2001. The Rural Housing Service does not collect data on children in households.

TANF Trends and Data

Nationally (as of June 2002) caseloads continued a decline that began in 1995 (Figure 1), but in 28 states enrollment topped June 2001 levels. According to the Department of Health and Human Services (HHS) persons now on the rolls include rising proportions of long-term recipients and minorities, and TANF "families" include a rising proportion with no adult recipient (child-only cases). The 2001 poverty rate among children in female-headed families (no spouse present) was 39.3%, compared with 39.8% in 2000, 49.3% in 1996, and 52.9% in 1994, when AFDC numbers were at a record high.

Figure 1. AFDC/TANF Families, June Cases, 1989-2002



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 the three programs into a single block ($16.5 billion annually through FY2002 and entitles each state to a fixed annual sum based on pre-TANF funding. It also provides an average of $2.3 billion annually in a new child care block grant. (TANF and related programs have been extended through the first half of FY2003 by continuing resolutions of Congress.) 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 and maintain at least 75% of their "historic" level of state welfare funding, increased to 80% if the state fails the work participation rate. States must require parents and other caretaker recipients to engage in state-defined "work" after a maximum of 24 months of benefits and must impose a general 5-year time limit on federally-funded ongoing basic benefits. They may exempt single parents with a child under age 1 from required work (and from the calculation of work participation rates). In FY2002, 50% of all families with an adult recipient were required to work (including 90% of families with two parents); statutory work rates are lowered for caseload declines from FY1995 levels. States are forbidden to give TANF aid to unwed parents under 18 unless they live under adult supervision, and, if high school dropouts, attend school. States may continue reforms begun under waivers from AFDC rules even if terms are inconsistent with the new law. (For TANF provisions, as compared to AFDC, see CRS Report 96-720.)

Medicaid and TANF

Although the 1996 law ended AFDC, it retains AFDC eligibility limits for Medicaid use. It requires states to give Medicaid coverage to children and parents who would be eligible for AFDC cash (under July 16, 1996 terms) if AFDC still existed. For this purpose, states may lower AFDC income and resource standards to those in effect on May 1, 1988, and may increase them by the percentage rise in the consumer price index since July 16, 1996, and may change the method of determining income and resources. Through FY2002, states had to extend medical assistance for 12 months to those who lost TANF eligibility because larger earnings lifted their income above July 1996 limits. The TANF bill passed by the House in 2002 (H.R. 4737) proposed to extend transitional Medicaid for one year (through Sept.30, 2003), and, to offset the cost, would have reduced the federal share of Medicaid administrative spending. The Senate Finance version of H.R. 4737 proposed to extend transitional Medicaid 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) In discretionary funding, Congress appropriated $2.1 billion for FY2002. For child care funding/spending details, see CRS Report RL31274. States may transfer some TANF funds to CCDF; in addition, they use TANF block grants for "direct" child care. FY2000 TANF-funded child care (federal and state dollars) totaled $2.3 billion, exclusive of $2 billion transferred to CCDF and state spending that also could be counted toward sums needed to qualify for matching child care entitlement funds.

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) grants food stamp eligibility to noncitizens after their first five years in this country. The Senate Finance Committee TANF bill in the last Congress would have permitted states to give federally funded TANF to legal aliens, regardless of their entry date, and to give Medicaid and S-Chip to immigrant children and pregnant women.

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.)* In separate measures last year, the Senate Finance Committee proposed to increase SSBG funding for FY2003 and FY2004 in the CARE bill (S. 1924) and for FY2005 in the TANF reauthorization bill.

TANF Reauthorization Bills in the 107th Congress

(See CRS Report RL31541 for a side-by-side comparison of the House-passed and Senate Finance Committee versions of H.R. 4737 and CRS Report RL31393 for a brief comparison of all bills introduced in the 107th Congress.)

Bill Passed by the House in 2002 (H.R. 4737)

Work Rules. This bill proposed to increase the all-family minimum participation requirement from the current 50% level to 70% by FY2007, end the separate higher rate for 2-parent families, and require TANF adults to engage in work or self-sufficiency activities an average of 40 hours per week, including 24 hours in "work," defined as unsubsidized jobs, subsidized private jobs, subsidized public jobs, on-the-job training, supervised work experience, and supervised community service. States could define any other activity as countable (for the remaining 16 weekly hours) so long as it was consistent with the purposes of TANF. Also, for 3 months within 24 months, persons could be deemed to meet the 24 hour weekly direct work requirement by engaging in activities chosen by the state, and under some circumstances, a fourth month could be credited for education. The bill proposed to replace the fixed base year (FY1995) for the general caseload reduction credit with a moving and more recent base, but it would have created a "super-achiever" caseload reduction credit for a state whose caseload fell at least 60% from its FY1995 level (without regard to policy changes that might have reduced caseloads). The bill would have required states to end cash aid to a family for at least one month if the parent failed to engage in required activities for two months. It would have continued the 5-year time limit on federally paid basic assistance, along with the 20% hardship exemption. It proposed to allow states to make TANF a mandatory partner in the workforce investment system.

Other Provisions. The bill would have allowed 50% of TANF funds to be transferred to the CCDBG (up from 30% in current law). Further, it proposed to appropriate $2.917 yearly in mandatory child care funds through FY2007 (a $1 billion increase over 5 years). It would have authorized appropriation of an annual average of $1.7 billion over 5 years for the CCDBG, with the sum rising from $2.3 billion for FY2003 to $3.1 billion for FY2007. It proposed new "superwaiver" authority for states to coordinate rules of specified programs for low-income families. Programs and activities covered by this waiver provision were TANF, Welfare-to-Work grants, SSBG, Job Opportunities for Low-Income Individuals (JOLI), Title I of WIA (excluding JOB Corps), Adult Education and Family Literacy Act, CCDBG, U.S. Housing Act (excepting Section 8 rental assistance and set-asides for the elderly and disabled), Homeless Assistance Act; and the food stamp program. Specified provisions (including non-financial food stamp rules, any funding restriction in an appropriations act) could not have been waived. Funds could not have been transferred from one account to another, and projects could not increase federal costs. Waiver approval would have been required by each relevant Secretary. The bill also would have authorized five states to replace food stamps with demonstrations of food assistance block grant projects. The bill proposed to establish marriage promotion matching grants ($100 million yearly) and would have allowed states to use federal TANF funds as the 50% state match. It proposed to appropriate $100 million annually for research and demonstration projects and technical assistance and specified that these funds shall be spent primarily on activities allowed under marriage promotion grants. It also would have established fatherhood projects ($20 million authorized annually through FY2007), ended the nonmarital birth bonus, and ended the high performance bonus, replacing it with an employment achievement bonus ($500 million appropriated for FY2004 through FY2008). The bill proposed to make improving child well-being the overall TANF purpose and to add "reducing poverty" to the goal of ending dependence on government benefits. The bill also would have extended abstinence-only education funding for 5 years and transitional Medicaid for one year.

Bill Approved by the Senate Finance Committee in 2002 (H.R. 4737)

The Senate Finance Committee approved, as a substitute for the House-passed H.R. 4737, the Work, Opportunity, and Responsibility for Kids (WORK) Act. The measure proposed to augment basic TANF grants of $16.5 billion by appropriating $441 million yearly for supplemental grants (on a new basis) and folding these funds into the basic grant structure. The result would have been to increase funding for 17 states (7 of which do not receive current supplemental grants) with below-average per capita income. Another 7 states would have continued to receive current level supplemental grants.

Work Rules. The Senate Committee bill, like the House bill, would have retained the 5-year limit on federally funded ongoing aid and raised work participation standards to 70% by FY2007. It proposed to replace the caseload-reduction credit with an employment credit, expand the list of countable work activities, and adopt a 30-hour work week for most recipients. It would have required that 24 hours weekly be spent in (an enlarged list of) priority activities, but retained the 20-hour week for single parents of a child under 6. It proposed to define postsecondary education as creditable work for up to 24 months and to permit states to engage some recipients in a specified 2- to 4-year degree program. The bill also would have allowed a state to exempt 10% of adult recipients from work because of being needed to care for a family member with a disability or chronic illness.

Other Provisions. The bill would have allowed states to give federally funded TANF to legal immigrants, regardless of date of entry; and would have extended transitional Medicaid and abstinence-only education for 5 years. It would have increased mandatory child care spending by $5.5 billion over 5 years and established grants for marriage promotion, fatherhood, TANF tribal improvement; second chance homes, Business Link partnerships and transitional jobs, at-home infant care demonstrations, and transportation programs. It would have permitted states to provide Medicaid and State Children's Health Insurance Program (SCHIP) services to legal immigrant children and pregnant women and would have required the HHS Secretary to approve applications for waiver programs on terms "similar or identical to" those of successful programs. It also would have increased funding for the Social Services Block Grant for FY2005 and provided $50 million annually for 5 years for abstinence-first or abstinence-plus education (in addition to $50 million yearly for abstinence-only education.)

TANF Issues

Definition of "Work Activities" and the Role of Education

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

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). The Internal Revenue Service (IRS) said it would not exclude TANF workfare payments from federal income and employment taxes if recipients were required to participate more hours for their benefit than the minimum wage equivalent. Adult TANF recipients generally now must work an average of 30 hours weekly (20 hours if they have a child under 6). At the federal minimum wage ($5.15), a 30-hour weekly workfare assignment equates to $154.50 in benefits ($669 per month); and in the 11 jurisdictions with higher state minimum wage rates, the required "workfare benefit" would be higher. Only in Alaska, California, New York (Suffolk County), and Wisconsin (Community Service program), are TANF maximum benefits for a 3-person family (as of Jan. 2002) high enough to provide the required amount for 30 hours of work, at the federal minimum wage rate, by a single-parent family. Many states could observe the workfare minimum "wage" by adding food stamps to the calculation, but some would have to boost cash benefits.

Work Participation Rates and Penalties

HHS reported on October 17, 2002, that work participation rates increased in FY2001 to 34.4% for all families and 51.1% for 2-parent families (compared with 34% and 48.9%, respectively, in FY2000). All states met their all-family adjusted minimum standards, as did 30 jurisdictions of the 35 with two-parent families in the TANF program. The statutory minimum work rates for FY2001 were 45% 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 28 states. See [http://www.acf.dhhs.gov/programs/ofa/im01rate.htm] for state rates. Both versions of H.R. 4737 in the 107th Congress proposed to end the higher participation rate for two-parent families.

Child Care Funding

The level of child care funding has emerged as a key issue in TANF reauthorization. Last year's House-passed TANF bill included an extra $1 billion in mandatory child care funding over 5 years and raised the discretionary authorization by $200 million annually over 5 years, reaching the level of $3.1 billion in FY2007. The Senate Finance TANF bill proposed to increase mandatory funding by $5.5 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. 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.) 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).

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. On December 12, 2002, the President issued an Executive Order (No. 13279) to implement an expansion of charitable choice principles to virtually all social service programs aimed at helping people in need. 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. During 2002, the Administration announced award of almost $25 million in Compassion Capital fund grants to 21 "intermediary" organizations authorized to issue sub-grants and of $17.5 billion in funds designed "to link faith-based and grassroots community organizations" to the nation's One-Stop Career system under the Workforce Investment Act (WIA).

Welfare-to-Work (WTW) Grants

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

Transfer of TANF Funds

The law allows states to transfer up to 30% of TANF funds to the Child Care and Development Block Grant (CCDBG) and the Title XX social services block grant (SSBG), but sets a limit of 10% on the share that can go to SSBG. P.L. 105-200 allows states to use TANF funds, within the overall 30% transfer limit, as state matching funds for job access grants to provide transportation services to TANF recipients and ex-recipients, noncustodial parents of TANF children, and those at "risk" of becoming eligible for TANF. Cumulative SSBG transfers from TANF awards through FY1999 totaled $6.4 billion, 13.7% of awards. During FY1999, states transferred 17% of 1999 awards (11% to CCDBG and 6% to SSBG). P.L. 105-178 cut the share of funds that could go to SSBG to 4.25%, effective in FY2001, but Congress in December restored the 10% cap for FY2001 only; and in late 2001 (P.L. 107-116) continued it at 10% for FY2002. The House voted in 2002 (H.R. 4737) to allow 50% of TANF funds to be transferred to CCDBG.

Victims of Domestic Violence

The 1996 law allows states to certify in their TANF plans that they have adopted standards to screen and identify TANF recipients with a history of domestic violence, refer them to services, and waive program requirements in some cases; 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.) For legislation, see S. 940/H.R. 1990, H.R. 2258, and S. 1249.

Transportation for TANF Recipients

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

Housing Vouchers for TANF Recipients

The President's FY1999 budget proposed tenant-based housing assistance to help eligible TANF families move to work ($283 million, sufficient for 50,000 vouchers).

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

Tax Credits for Hiring Welfare Recipients

In 1997, Congress established a Welfare-to-Work (WtW)Tax Credit for hiring persons who had received AFDC/TANF for 18 months. It also extended an existing credit called the Work Opportunity Tax Credit (WOTC)for hiring certain persons, including those who had received TANF for 9 months. P.L. 106-554 added "renewal communities" to the areas where a tax credit is offered for hiring resident youth. S. 545, introduced March 15, 2001, would extend WOTC to small business employees working or living in areas of poverty. P.L. 107-147, signed March 9, includes an extension of the WtW tax credit and WOTC through December 31, 2003. 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 IDEAS. According to HHS, 31 states allow TANF recipients to establish IDAs, including IDAs under the Assets for Independence (AIA) 5-year demonstration program created by Congress in 1998. In the first three years of the AIA 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. In mid-April, 2002, the Office of Community Services requested applications for FY2002 awards. Deadline for applications was August 5. Appropriations for FY1999 and FY2000 were $10 million each; for FY2001 and FY 2002, $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. The Senate Finance Committee in 2002 approved a proposal (in its version of H.R. 7) to establish a new IDA program financed with tax credits to financial institutions.

Unspent TANF Funds

As of June 30, 2002, HHS reports that states had an unspent/unobligated balance in the U.S. Treasury of $4.5 billion in TANF funds (of which $2.3 billion represented unliquidated obligations). Four states accounted for half of the total: California, $891 million; New York, $809 million; Ohio, $286 million; and Pennsylvania, $263 million. Nine states had no balances: Colorado, Connecticut, Delaware, Illinois, Kentucky, Massachusetts, Montana, Rhode Island, and Virginia. States may draw TANF funds from the Treasury only for reimbursement of expenditures. The law sets no fiscal year deadline for expenditure of TANF funds for "assistance," defined as basic ongoing aid. Both versions of H.R. 4737 (TANF reauthorization bill) 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. The bill also proposed "fatherhood" grants to promote marriage and applied Charitable Choice rules to them, but the Senate did not act on counterpart legislation. P.L. 106-553 and P.L. 106-554 appropriated $4 million to two national organizations to promote fatherhood. In 2002, both the House-passed TANF bill (H.R. 4737) and the Senate Finance Committee substitute for this bill included provisions to promote "responsible fatherhood" and distribute more child support directly to families.

TANF Bonus Funds

On October 4, 2002, HHS announced award of $100 million in bonuses to 6 of the 7 jurisdictions that achieved reductions in the percentages of births to unwed women between 1997-98 and 1996-00. Bonuses went to Alabama, Colorado, D.C., Michigan,, Texas, and the Virgin Islands. On July 2, 2002, the Department announced award of the third TANF high performance bonus: $200 million to 26 states and D.C., based on state rankings (absolute and relative) in FY2000 on work-related measures — rates of job entry and success in the workforce (job retention and earnings gain). Winners ranked among the top 10 states in at least one category. Bonuses ranged from $0.648 million in Nebraska for improvement in workforce success to $41.7 million in California (also the top winner in the two previous years) for workforce success. For state rankings and high performance bonuses, see [http://www.acf.dhhs.gov/programs/opre/hpb/index.htm]. On August 30, 2000, HHS issued final rules for high performance bonuses, effective for awards beginning in FY2002, available on the HHS Web site at [http://www.acf.dhhs.gov/programs/opre/hpb]. The new rules add four non-work performance measures: family formation and stability, health insurance coverage, food stamp coverage, and child care coverage.

Selected Bills from the 107th Congress

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

H.R. 7 (and identical bill, H.R. 1284) (Watts)
Numerous social programs. Title I provides tax incentives for private giving; Title II expands charitable choice to cover 9 new program areas. Introduced March 29; referred to two committees, which made amendments. Passed House July 19, 2001. Amended by Senate Finance Committee and renamed on July 16, 2002. See also S. 1924.

H.R. 3625 (Cardin)
TANF reauthorization, child support. Introduced January 24, 2002; referred to Ways and Means Committee. Rejected by House vote as substitute for H.R. 4737.

H.R. 3730 (Woolsey)
TANF. Allows 48 months of postsecondary or vocational educational training as TANF work activity. Other provisions. Introduced February 12, 2002, referred to two committees.

H.R. 4057 (Levin)
TANF. Replaces caseload reduction credit with employment credit. Introduced March 20, 2002. Companion bill: S. 2058. Concept included in Finance version of HR. 4737.

H.R. 4655 (Mrs. Maloney)
Domestic violence. Requires States to ensure that TANF programs take action to help victims. Introduced May 2, referred to Ways and Means.

H.R. 4737 (Pryce)
TANF, child care, child support, abstinence education, transitional Medicaid. Introduced May 16, 2002, passed by House May 17 (originally introduced as H.R. 4700 on May 9). Amended by Senate Finance Committee and renamed on June 27. For summary of both versions, see TANF Reauthorization Bills in the 107th Congress above.

S. 685 (Bayh)
Child support, EITC, SSBG, others. Strengthening Working Families Act. Provisions include: fatherhood projects, child support distribution, EITC expansion. Introduced April 3, 2001. See also H.R. 1470, H.R. 2893 (fatherhood only), S. 916, and S. 918.

S. 770 (Levin)
TANF. Allows vocational educational training to be counted as a TANF work activity for 24 months. Introduced April 24, 2001.

S. 940 (Dodd)
TANF and numerous others. Leave No Child Behind Act. Introduced May 23, 2001; referred to Finance Committee. Almost identical bill, H.R. 1990, introduced May 24; referred to six committees.

S. 2058 (Lincoln)
TANF. Replaces the TANF caseload reduction credit with an employment credit. Introduced March 21, 2002. Credit incorporated in Finance Committee's version of HR. 4737.

S. 2116 (Kerry)
TANF and housing. Several provisions to facilitate use of TANF funds for housing. Introduced April 11., 2002. Some provisions incorporated in Finance version of H.R. 4737.

S. 2484 (Baucus)
TANF for Indians. Introduced May 8, 2002 Some provisions incorporated in Finance version of H.R. 4737.

S. 2631 (Bingaman)
TANF. Provides grants for transitional jobs programs. Introduced June 18. Incorporated in Finance version of H.R. 4737.

S. 2669 (Corzine)
TANF. Suspends time limit in a state with high unemployment. Introduced June 24.

S. 2876 (Murray)
TANF. Suspends federal time limit during months in school, exempts kinship care families from time limits and work rules. Other provisions. Introduced August 1.

S. 2878 (Feingold)
TANF. Establishes sanction and due process rules. Introduced August 1.

For Additional Reading

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

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

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

CRS Report RL31541. *TANF Reauthorization: Side-by-Side Comparison of Current Law and Two Versions of H.R. 4737,* by Vee Burke.

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

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

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