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Welfare Reform: An Issue Overview

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SUMMARY

Efforts to extend TANF and related programs beyond their scheduled expiration on September 30 await the return of Congress from its August recess. The House passed a 5-year extension bill (H.R. 4) in February, but the Senate Finance Committee has taken no action beyond two hearings. On June 30, the President signed P.L. 108-40, which extends TANF, supplemental TANF grants, mandatory child care, abstinence education, and transitional medical assistance (TMA), on FY2002 terms, through September 30. These programs have operated under quarterly extensions of spending authority since October 1, 2002.

Pending are five comprehensive TANF bills: H.R. 4, S. 5, the Senate Republican leadership bill, two Democratic alternatives, S. 367, and S. 448, and a bipartisan bill, S. 1443. Major issues of contention are work rules (hours and activities) and child care funding.

H.R. 4 is almost identical to the bill passed by the House last year (H.R. 4737). Both H.R. 4 and S. 5 raise the work week for TANF recipients to 40 hours and require that states eventually engage 70% of recipients in a work activity (up from 50%). S. 5 allows states to privatize determination of food stamp eligibility. The Democratic bills retain the current work week (30 hours for single adults without a child under six). The bipartisan bill increases work participation standards and lengthens the TANF work week (to 32 hours) for those without a child under 6, but gives prorated credit for part-time work. It also boosts mandatory child care funding by $5.5 billion over 5 years and provides numerous special grants.

The FY2004 budget resolution, like the President's budget proposal, assumes renewal of TANF block grants for 5 years ($16.5 billion annually) and an increase in mandatory child care funding. The President's budget also proposed to: replace Section 8 housing vouchers for low-income families with a block grant called Housing Assistance for Needy Families (HANF), permit states to operate foster care programs with a block grant, and increase the child tax credit from $600 per child to $1,000.

In May 2002, on a largely partisan vote, 229-197, the House passed a bill (H.R. 4737) to extend TANF on new terms from FY2003 through FY2007, but the Senate Finance Committee substitute bill (H.R. 4737) never reached the Senate floor. The Senate Committee bill adopted the 70% work participation rate of the House bill, but rejected its 40-hour work week The Senate Committee bill proposed a much greater expansion in mandatory child care funding ($5.5 billion over 5 years) than the House bill ($1 billion). The Senate bill 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 FY2001 work participation rates rose slightly, 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. September 2002 national enrollment was 4.7% below that of September 2001, but in 24 jurisdictions caseloads topped those of last year. April food stamp enrollment, at 21.5 million persons, was the highest in 5-1/2 years.

Most Recent Developments

The Senate adjourned on August 1 without acting on reauthorization of TANF. Efforts to extend TANF and related programs beyond September 30 await the return of Congress. On June 30, the President signed P.L. 108-40, which extends TANF, supplemental TANF grants, mandatory child care, abstinence education, and transitional medical assistance (TMA), on FY2002 terms, through the last quarter of this fiscal year. On July 17, HHS said it planned to award about $250,000 in compassion capital grants to faith-based and community organizations that serve at-risk youth and the homeless. On July 10, the House voted (H.R. 2660) to authorize expanded funding for FY2004 — but less than the President sought — for the compassion capital fund and mentoring children of prisoners, two elements of the faith-based initiative. On April 9 the Senate passed S. 476, the CARE Act, without charitable choice provisions, but Senator Santorum said he would return to the issue during debate on TANF reauthorization.

Background and Analysis

Major Programs for Low-Income Families

AFDC/TANF national enrollment has been falling since 1994, but the number of families on TANF rolls rose in more than half the states during FY2002. The September 2002 caseload held 2.025 million families, compared with 2.098 million one year earlier and with the record peak of 5.084 million in March 1994. (Numbers for 2002 exclude some families moved from TANF to state-funded programs.) The 2002 report of the Council of Economic Advisers (CEA) says research has found that time limits alone caused more than 10% of the 1993-1999 caseload decline.

The food stamp caseload, steadily rising for two years, reached 21.5 million persons in April, the highest number since August, 1997. The all-time peak was 28 million in March 1994. The number of children enrolled in Medicaid rose from 21.7 million in FY1999 to 25.5 million in FY2002, and the number of enrolled parents climbed from 9 million to 13.9 million. In the State Children's Health Insurance program (SCHIP) the number of enrolled children rose from 0.9 million in FY1999 to 5.3 million in FY2002; SCHIP also served 0.3 million adults. The Earned Income Tax Credit (EITC) is the largest form of income-tested federally funded cash aid for families. In FY2002, it provided an estimated $27.8 billion in U.S. Treasury checks to low-income working families, compared with TANF cash benefits of $13.1 billion.

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: cash and medical aid, 33% each; food aid, 18%, and housing, 15%. (**Table 1**). In FY2001 spending on cash food dropped by $0.4 billion (to $50.9 billion) but food outlays climbed by $1 billion (to $28.5 billion). 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

	Federal Funds ($ in billions)		State-local Funds ($ in billions)		Recipients[a] (in millions)	
	FY2000	FY2001	FY2000	FY2001	FY2000	FY2001
Cash aid	**$43.7**	**$44**	**$7.6**	**$6.9**	—	—
(TANF)[b]	(6.9)	(6.7)	(7.6)	(6.9)	(5.8)[c]	(5.5)[c]
(EITC)[d]	(31.9)	(32.3)	0	0	(19.3)	(19.3)
(SSI) (children only)	(4.9)	(5.0)	N.A.	N.A.	(0.85)	(0.87)
Food benefits	**26.9**	**27.5**	**1.0**	—	—	—
(Food stamps)[e]	(14.6)	(15.0)	(1.0)	(1.0)	(13.4)[c]	(13.5)[c]
(Subsidized meals)[f]	(8.3)	(8.4)	N.A.	N.A.	(17.3)	(17.3)
(WIC)	(4.0)	(4.1)	N.A.	N.A.	(7.2)[c]	(7.3)[c]
Major medical aid	**30.2**	**32.6**	**N.A.**	**N.A.**	**34.3**	**36.9**
(Medicaid)[g]	(28.3)	(29.9)	(21.4)	(22.6)	(31.0)[c]	(32.3)[c]
(S-CHIP)[h]	(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[i]	0[i]	(3.7)[j]	(4.0)[j]
(Rural housing service programs)[k]	(4.0)	(4.1)	0	0	(0.1)[l]	(0.1)[l]

Note: Figures include administrative costs where available. Excludes education benefits, work and job training programs, Title XX social services, Child Care and Development Block Grant (CCDBG), energy aid, and numerous smaller programs.

a. *Caution*: Average monthly number of individuals, *except*: subsidized meals, estimated daily average participation in school meals and child care programs by children from lower-income families; Medicaid, *yearly total* estimates of enrollment; EITC, *yearly total* number of *families*; SSI, number of children in September, and housing, number of *households* at end of year.

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

c. Includes parents. Child totals: 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.

d. 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.

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

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

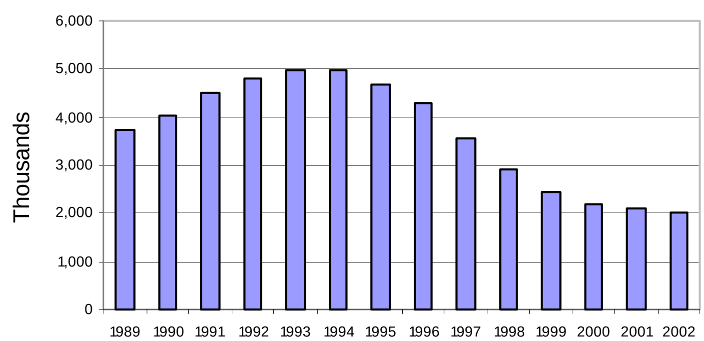
g. Spending estimates are from the April 2001 and March 2002 baselines of CBO. The federal funding share is estimated at 57% of total spending.

h. Spending estimates are based on state expenditure reports. Recipient counts represent the number of children ever enrolled during the year.
i. Localities accept below-tax payments in lieu of property taxes on public housing projects.
j. Based on estimated percentage of households with children: FY2000, public housing, 45%; Section 8, 70%; FY2001, public housing, 43%; Section 8, 51%.
k. Subsidized loans to low-income persons for homeownership (Section 502) and rental aid (Sections 515/521).
l. Represents housing units, each of which generally can accommodate one family. Assistance was provided to 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

The decline is TANF rolls has slowed to a near halt (see Figure 1). National numbers in September were only 73,000 below those of a year before. However, TANF enrollment topped that of September 2001 in several states (including New York, which has moved into a state-funded safety net program more than 40,000 families after they reached the 5-year federal time limit). Persons now enrolled include rising proportions of minorities, and 37% of TANF "families" now have no adult recipient (child-only cases). The 2001 poverty rate among children in female-headed families was 39.3%, compared with 39.8% in 2000, 49.3% in 1996, and 52.9% in 1994, when AFDC numbers peaked.

Figure 1. AFDC/TANF Families, September 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/resource standards to those in effect on May 1, 1988, and may increase them by the percentage rise in the consumer price index since July 16, 1996, and may change the method of determining income and resources. Through FY2002, states had to extend transitional medical assistance (TMA) for 12 months to those who lost TANF eligibility because larger earnings lifted their income above July 1996 limits. H.R. 4, passed by the House this year, extends TMA for 1 year; the Senate Finance Committee last year voted to extend it for 5 years.

Child Care

The 1996 welfare law created a mandatory block grant for child care to low-income families. Individual states are entitled to what they received for AFDC work-related child care, transitional child care, and at-risk child care in a base year. States that maintain the higher of their 1994 or 1995 spending on these programs are entitled also to extra funds at the Medicaid match rate. Appropriated for the block grant was $13.9 billion over 6 years ($2.7 billion for FY2002, the final year). The law also authorized $1 billion annually through FY2002 in discretionary funding under an expanded Child Care and Development Block Grant (CCDBG). The combined entitlement and discretionary funding streams are referred to as the Child Care and Development Fund (CCDF). For fiscal year 2003 (as for 2002), Congress appropriated $4.8 billion — $2.1 billion in discretionary funds, $2.7 billion in mandatory funds. States may transfer some TANF funds to CCDF; 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. The FY2004 budget requests \$4.8 billion for child care; the House appropriations bill (H.R. 2660) provides this sum.

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 5 years in this country.

Food Stamp Revisions

The 1996 law expanded states' food stamp role, added work rules, restricted benefits, and barred eligibility for most legal aliens. At passage, net federal food stamp outlay savings over 5 years were estimated at \$23.3 billion. P.L. 105-33 provided \$1.5 billion over 5 years for work programs, and P.L. 105-18 allowed states to pay for food stamps for persons made ineligible for federally financed stamps by the 1996 law. P.L. 106-387 raised benefits for those with high shelter costs, and the 2002 farm bill increased estimated food stamp spending by \$5.7/\$5.9 billion over 10 years. Changes include expanded eligibility for aliens.

Social Services Block Grants

The 1996 Act reduced the \$2.8 billion entitlement ceiling for Social Services Block Grants (SSBG) under title XX of the Social Security Act by 15% and entitled states to \$2.38 billion yearly. Congress later appropriated \$2.5 billion for FY1997, \$2.3 billion for FY1998, \$1.9 billion for FY1999, and \$1.8 billion for FY2000. Beginning in FY2001, P.L. 105-178 reduced the entitlement ceiling to \$1.7 billion, and Congress appropriated this amount for FY2002. (For TANF transfers to SSBG, see Transfer of TANF funds.) The CARE Act (S. 476), approved by the Senate April 9, would increase SSBG funding for FY2003 and FY2004 (to \$1.975 and \$2.8 billion, respectively). The FY2004 budget requests \$1.7 billion. The House voted on July 16 to provide this sum (H.R. 2660).

TANF Reauthorization Bills

(See CRS Report RL31541 for a side-by-side comparison of the bill passed last year and the Senate Finance Committee substitute for it (both called H.R. 4737). Also, CRS Report RL31393 provides a brief comparison of all bills introduced in the last Congress.)

House-Passed Bill (H.R. 4)

Work Rules. The Personal Responsibility, Work, and Family Promotion Act increases the all-family minimum participation requirement from the current 50% level to 70% by FY2008, ends the separate higher rate for 2-parent families, and requires TANF adults to engage in work or self-sufficiency activities an average of 40 hours per week (calculated on the basis of a 160 hour month, equivalent to 37 hours weekly), 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 replaces the fixed base year (FY1995) for the general caseload reduction credit with a moving and more recent base, but it creates a "super-achiever" caseload reduction credit for a state whose FY2001 caseload was at least 60% smaller than that of FY1995. The bill requires 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 continues the 5-year time limit on federally paid basic assistance, along with the 20% hardship exemption. It allows states to make TANF a mandatory partner in the workforce investment system.

Other Provisions. The bill maintains funding at current levels for basic block grants, supplemental grants, and the contingency fund. It allows 50% of TANF funds to be transferred to the CCDBG (up from 30% in current law). Further, it appropriates $2.917 yearly in mandatory child care funds through FY2008 (a $1 billion increase over 5 years). It authorizes appropriation of an annual average of $1.7 billion over 5 years for the CCDBG, with the sum rising from $2.1 billion for FY2003 to $3.1 billion for FY2008. It creates new "superwaiver" authority for states to coordinate rules of specified programs for low-income families. Programs and activities covered by this waiver provision are 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 be waived. Funds could not be transferred from one account to another, and projects could not increase federal costs. Waiver approval would be required by each relevant Secretary. The bill also would authorize five states to replace food stamps with demonstrations of food assistance block grant projects. The bill establishes marriage promotion matching grants ($100 million yearly) and specifies that TANF funds used for marriage promotion must be treated as the 50% state match.

It also appropriates $100 million annually for research and demonstration projects and technical assistance and specifies that these funds must be spent primarily on healthy marriage promotion activities. It establishes fatherhood projects ($20 million authorized annually through FY2008), ends the nonmarital birth bonus, and ends the high performance bonus, replacing it with an employment achievement bonus ($500 million appropriated for FY2004 through FY2009). The bill makes improving child well-being the overall TANF purpose, adds "reducing poverty" to the goal of ending dependence on government benefits, extends abstinence-only education funding for 5 years and transitional Medicaid for one year.

Senate Republican Leadership Bill (S. 5)

Work Rules. Work rules (participation rates, hours of work, countable activities) are the same as in H.R. 4. However, in calculating state work participation rates, S. 5 does not allow states to exclude families in their first month of assistance (an option in H.R. 4).

Other. Most funding amounts and rules are the same as in H.R. 4. However, S. 5 changes the super-waiver provisions, disallowing a waiver that would reduce or eliminate TANF work participation rates. It doubles funding for healthy marriage promotion matching grants (to $200 million annually), increases the federal matching rate from 50% to 75% and, like H.R. 4, provides that TANF funds used for marriage promotion shall be treated as state matching funds. S. 5 also appropriates $100 million in outright grants that must be spent on healthy marriage promotion (as noted above, the counterpart provision in H.R. 4 merely requires that the extra $100 million be used "primarily" for marriage promotion). The bill permits states to privatize the determination of eligibility for food stamps and to use TANF work and procedural rules for persons who apply for both TANF and food stamps. It also indexes funding (at one-half the rate of inflation) for the food assistance block grant projects proposed in H.R. 4. The bill also imposes new anti-fraud rules.

Senate Democratic Alternatives, S. 367 and S. 448

S. 367. Sponsored by Senator Rockefeller, this TANF reauthorization bill increases funding for TANF basic and supplemental grants; maintains work participation standards at 50% for all families; expands the list of countable work activities; permits states to stop the federal time clock during months of work, community service, workfare, or participation in a parents as scholars program; allows states, through September 30, 2008, to continue prewelfare reform waivers scheduled to expire after September 30, 2002; and makes numerous other changes.

S. 448. This comprehensive "Leave No Child Behind Act," sponsored by Senator Dodd, maintains basic grants at current levels through FY2009 and prohibits use of TANF funds to supplant other funds. The bill replaces the caseload reduction credit with an employment credit; stops the federal time clock during a month spent in a priority activity; provides partial work participation credit for part-time workers; permits a state, without numerical limit, to continue federally funded benefits beyond 60 months for persons with severe work barriers; requires states to give extended "earned-back" time for persons in wage-paying jobs; greatly enlarges child care funding (appropriating $3.8 billion in entitlement funds for FY2004 and rising amounts for the future (up to $24.2 billion for FY2013); appropriates $200 million yearly for a poverty reduction bonus; authorizes $500 million over 5 years for matching "Gateways" grants, chiefly to inform working poor about available help. Numerous other provisions include a rise in the federal minimum wage.

Bipartisan Bill

S. 1443. The "Building on Welfare Success Act," sponsored by Democratic Senators Carper, Nelson of Nebraska and GOP Senator Collins, increases work participation rates, lengthens the TANF work week (to 32 hours) for persons without a child under 6 (requiring that 24 hours — up from 20 — be in core activities), and provides partial work credit for part-time work. It allows states to establish parents as scholars programs (and count participants as engaged in work), doubles the length of countable vocational education, increases child care funding by $5.5 billion over 5 years. It also provides special grants for transitional jobs, marriage promotion, teen pregnancy prevention, responsible fatherhood, transportation access, self-sufficiency, and others. The bill also allows states to extend transitional medicaid for 24 months. Numerous other provisions.

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). 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. Participation rates of the 17 states that had continuing waivers were calculated under work rules of the waivers. In the absence of waivers, national participation rates would have been lower (29.9% for all families and 42.8% for two-parent families). 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. The House has twice voted to end the higher participation rate for two-parent families, and the Senate Finance Committee included this provision in its 2002 TANF bill.

Child Care Funding

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

"Charitable Choice," Faith-Based Initiative, and Privatization

The 1996 welfare law permits states to "administer and provide services" under TANF, food stamps, Medicaid, and some other federal programs through contracts with (or vouchers redeemable with) charitable, religious, or private organizations. However, food stamp and Medicaid law effectively require *eligibility to be determined* by a public official. (S. 5 would permit states to "privatize" determination of food stamp eligibility.) The stated purpose of what has come to be known as "charitable choice" is to allow religious organizations to provide services on the same basis as any other nongovernmental provider "without impairing their religious character" or diminishing the religious freedom of recipients. Since 1996, Congress has enacted other charitable choice provisions — applying them to grants under the Community Services Block Grant (1998) and to substance abuse services under the Public Health Service Act (2000). (See CRS Report RS20712.) 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). On June 26, 2003, HHS said it planned to award about $4.2 million in competitive matching grants (four Federal dollars per non-federal dollar) to intermediary organizations for a compassion capital demonstration program, and on April 4, 2003, the Labor Department said it would award another $3.75 million to small faith-based and community organizations and intermediary organizations for the purpose of expanding access to One-Stop centers. The FY2004 budget requests $100 million for the Compassion Capital fund, $50 million to mentor children of prisoners, and $10 million for maternity group homes. The House (H.R. 2660) has voted to appropriate $50 million in FY2004 for the Compassion Capital Fund and $25 million for mentoring children of prisoners, but the Senate Appropriations Committee bill provides $34.8 million and $9.9 million, respectively. The CARE Act (S. 476), passed by the Senate April 9, has no charitable choice provisions; but, in a title called Compassion Capital Fund, it authorizes $150 million for FY2003 (and "such funds" as needed for FY2004-2007) in grants to nongovernmental organizations for technical assistance and other support to community-based organizations. It also authorizes use of funds under the Runaway and Homeless Youth Act for maternity group homes ($33 million for FY2003 and such sums as needed for FY2004).

Welfare-to-Work (WTW) Grants

The basic TANF block grant earmarks no funds for any program component, benefits or work programs. The 1997 Balanced Budget Act created a $3 billion welfare-to-work grant program for FY1998-FY1999, administered by the Secretary of Labor. It required 75% of funds (after set-asides) to be used for 33% state matching formula grants. Remaining funds were to be used for competitive grants. As of September 30, 2002, a net total of $2.2 billion had been awarded. As first enacted, 70% of funds had to be used to benefit TANF recipients (and non-custodial parents) with at least two specified barriers to work who themselves (or whose minor children) were long-term recipients (30 months of AFDC/TANF benefits) or were within 12 months of reaching a time limit. In response to complaints that narrow eligibility conditions were inhibiting enrollment, Congress liberalized terms in 1999. The next year it gave states and competitive grantees another two years in which to spend WTW funds. Eligible for WTW services since July 1, 2001, have been these new groups: long-term TANF recipients without specified work barriers, former foster care youths 18 to 24 years old, TANF recipients who are determined by criteria of the local private industry council to have significant barriers to self-sufficiency, and non-TANF custodial parents with below-poverty income who are unemployed, underemployed, or having difficulty paying child support and comply with a personal responsibility contract. As of September 30, 2002, about 19 percent of net WTW awards remained unspent ($293 million in formula grants and $123 million in competitive grants) (For more background, see CRS Report RS20134.)

Transfer of TANF Funds

The law allows states to transfer up to 30% of TANF funds to the Child Care and Development Block Grant (CCDBG) and the Title XX social services block grant (SSBG), but sets a limit of 10% on the share that can go to SSBG. P.L. 105-200 allows states to use

TANF funds, within the overall 30% transfer limit, as state matching funds for job access grants to provide transportation services to TANF recipients and ex-recipients, noncustodial parents of TANF children, and those at "risk" of becoming eligible for TANF. 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. However, Congress since has continued it at 10% , year by year, most recently for FY2003 (P.L. 108-7). The House voted in 2002 (H.R. 4737) and again in 2003 (H.R. 4) to allow 50% of TANF funds to be transferred to CCDBG. However, on July 10, the House voted (FY2004 appropriation bill) to permit only 5.5% of TANF funds to be transferred to SSBG.

Victims of Domestic Violence

The 1996 law allows states to certify in their TANF plans that they have adopted standards to screen and identify TANF recipients with a history of domestic violence, refer them to services, and waive program requirements in some cases; all but 10 jurisdictions have adopted this Family Violence Option (FVO). The Senate several times voted to allow unlimited TANF waivers for victims of domestic violence and to disregard these persons in computing a state's work participation rate, but the House has disagreed. Regulations permit a state that has adopted the FVO to receive "reasonable cause" exceptions to penalties for failing work and time limit rules if the state had granted domestic violence waivers that met certain standards. (See CRS Report RS20662.)

Transportation for TANF Recipients

The 1998 transportation act (P.L. 105-178) authorized $750 million in 50% matching funds over 5 years for matching grants for job access and reverse commute grants for welfare recipients, of which no more than $10 million annually can be for reverse commute projects. It said funds were to be used to develop services for welfare recipients and other low-income persons (income not above 150% of the poverty level). As noted immediately above, states may use TANF funds, within limits, as state matching funds for these grants. Appropriations for FY1999 and 2000 were $75 million annually, and for FY2001, $99.780 million (P.L. 106-346). In FY1999, the Federal Transit Administration (FTA) awarded competitive grants to 206 projects, but thereafter Congress designated many projects for funding. For FY2000, about 50% of funds were earmarked for specific projects, and for FY2001, about 75% ($21 million was earmarked in FY2001 for five state governments).

Housing Vouchers for TANF Recipients

In response to President Clinton's FY1999 request, Congress appropriated funds in 1998 (P.L. 105-276) for tenant-based housing assistance to help eligible TANF families move to work ($283 million, sufficient for 50,000 Section 8 vouchers). This law made sweeping changes in subsidized housing, including: Reducing the share of units reserved for very poor families in an effort to achieve an income mix; requiring housing agencies to set minimum rents (not above $50 monthly); allowing public housing tenants to choose a flat rent or income-adjusted rent; forbidding housing agencies to increase the rent for one year of TANF recipients (or some other previously unemployed persons) who take a job; and requiring adult public housing residents, for 8 hours monthly, to participate in a self-sufficiency program or in community service. (See CRS Report 98-868.) The FY2000 and FY2001 budgets requested funding for new WTW housing vouchers, but Congress denied the requests, and subsequent budgets (including that for FY2003) have sought no new WTW housing vouchers. The FY2004 budget proposes to gradually replace Section 8 housing vouchers with Housing Assistance for Needy Families (HANF) block grants to states. For a general discussion of housing for the poor, see CRS Report RL30486.

Waivers

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

Tax Credits for Hiring Welfare Recipients

In 1997, Congress established a Welfare-to-Work (WTW)Tax Credit for hiring persons who had received AFDC/TANF for 18 months. It also extended an existing credit called the Work Opportunity (WOTC)for hiring certain persons, including those who had received TANF for 9 months. P.L. 106-554 added "renewal communities" to the areas where a tax credit is offered for hiring resident youth. Both credits are set to expire Dec. 30, 2003. The FY2004 budget proposes to extend these credits, in combined, modified form, through December 31, 2005. H. 2047 and S. 1180 would make the credits permanent, in combined and modified form. See CRS Report RL30089.

Individual Development Accounts (IDAs)

The 1996 law permits states to use TANF funds to carry out a program of individual development accounts (IDAs) established by (or on behalf of) persons eligible for TANF, with no dollar limit. Accounts are to contain deposits from the recipient's earnings, matched by a contributions from a not-for-profit organization, or a state or local government agency in cooperation with the organization. Withdrawals are allowed only for postsecondary educational expenses, first home purchase, and business capitalization. All means-tested programs must disregard amounts, including accruing interest, in TANF-funded 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 3 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. Appropriations for FY1999 and FY2000 were $10 million each; for FY2001 and FY2002, $25 million each. In mid-June, 2002, the Office of Refugee Resettlement (ORR) announced that it planned to award about $2.5 million in FY2002 ORR funds for projects to establish and manage IDA accounts for refugees (a term including asylees, Cuban and Haitian entrants, and certain Amerasians from Vietnam). Savings in these IDAs could be used not only for home ownership, business capitalization, and postsecondary education, but also for purchase of an automobile or computer. S. 476 , approved by the Senate on April 9, would establish a new IDA program financed with tax credits to financial institutions.

Unspent TANF Funds

As of September 30, 2002, HHS reports that states had an unspent/unobligated balance in the U.S. Treasury of $5.8 billion in TANF funds. Unliquidated obligations totaled $3.1 billion, and unobligated balances, $2.7 billion. Nine states had no balances left to obligate: California, Colorado, Connecticut, Illinois, Massachusetts, Rhode Island, South Carolina, Vermont, and Virginia. States may draw TANF funds from the Treasury only for reimbursement of expenditures. The law sets no fiscal year deadline for spending TANF dollars for "assistance," defined by regulation as basic ongoing aid. The House-passed H.R. 4 would permit carryover of funds for any benefit or service (a provision approved also by the Senate Finance Committee last year).

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.

LEGISLATION

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

H.R. 4 (Pryce)

Reauthorizes TANF, on new terms, for 5 years. Almost identical to H.R. 4737, as passed by House in 2002. See text above. Passed House February 13, 2003.

H.R. 535 (AcevedopVila)

TANF. Provides access to "tools" for moving from welfare to work. Introduced February 5, 2003; referred to Committees on Ways and Means and Energy and Commerce.

H.R. 624 (Stark)

TANF. Credits work-barrier removal as work. Introduced February 5, 2003; referred to Ways and Means Committee.

H.R. 625 (Stark)

TANF. Makes poverty reduction a TANF goal and provides grants for that purpose. Introduced February 5, 2003; referred to Ways and Means Committee.

H.R. 706 (Stark)

TANF. Provides $100 million grant program for projects to promote "secure and healthy" families. Introduced February 11, 2003; referred to Ways and Means Committee.

H.R. 2047 (Houghton)

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

H.R. 2770 (Pallone)

TANF and Indians. Provides special funding for tribal programs. Introduced July 17; referred to several committees.

S. 5 (Talent)

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

S. 261 (Bingaman)

TANF. Children First Act. Increases CCDBG funding by $11.2 billion over 5 years; excludes months of TANF-funded child care benefits from federal 5-year assistance limit. Other provisions. Introduced January 30, 2003.

S. 262 (Bingaman)

TANF. Removes limit on percentage of recipients who may be credited with work by virtue of educational activity. Stops federal time clock for months when child care or transportation aid (but no cash benefit) is received by persons engaged in work or education. Introduced January 30, 2003.

S. 263 (Bingaman)

TANF and waivers. Allows states to continue (through September 30, 2007) waivers that were scheduled to expire between Oct. 1, 2002 and September 30, 2007. Requires HHS Secretary to approve waiver applications with similar or identical terms to those of waivers continued by above provision. Amends state plan requirements. Introduced January 30.

S. 316 (Corzine)

TANF. Specifies assessment procedure; treats work-barrier removal activities as countable work. Other changes. Introduced February 5, 2003.

S. 327 (Levin)

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

S. 367 (Rockefeller)

TANF reauthorization. See text above. Introduced February 12, 2003.

S. 448 (Dodd)

TANF reauthorization. Extends block grants at current level, replaces the caseload reduction credit with an employment credit, stops federal time clock for months of priority work, greatly increases child care funds. (Comprehensive provisions about health, education; unemployment compensation, food stamps, etc.) Introduced February 26.

S. 574 (Corzine)

TANF. Stops the federal time clock for months of assistance received during periods of high unemployment. Introduced March 7.

S. 603 (Snowe)

TANF. Allows states to create a program of postsecondary education (including college) for TANF recipients. Introduced March 12.

S. 605 (Smith)

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

S. 657 (Bayh)

TANF. Provides fatherhood grants within TANF. Introduced March 19.

S. 669 (Snowe)

Child support. Provides more support for ex-welfare families. Introduced March 19.

S. 770 (Feingold)

TANF. Sets due process rules and new reporting requirements. Introduced April 2

S. 786 (Bingaman)
TANF. Provides grants for transitional jobs programs. Introduced April 3.

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

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

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.