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CRS Issue Brief for Congress

Welfare Reform: An Issue Overview

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Welfare Reform: An Issue Overview

SUMMARY

Congress has voted for the eighth time to grant a temporary extension, on FY2002 terms, to TANF and related programs of mandatory child care, state grants for abstinence education, and transitional medicaid The newest extension (H.R. 5149) was passed by both houses on September 30 and signed into law (P.L. 108-308) the same day. It runs through March 31, 2005.

Because of disputes over proposed changes to TANF and the lack of pressure for action, Congress has failed to pass a permanent reauthorization law since the original five-year program ended on September 30, 2002. The TANF block grant, under which caseloads have fallen 50%, is widely considered a success, and many governors contend that pending bills would force them to curtail productive practices. The House passed a comprehensive five-year bill (H.R. 4) in February 2003 (and a similar one in 2002), but no bill has reached a vote on Senate passage. Senate floor action on the Finance Committee version of H.R. 4 stalled on April 1, 2004, when Republicans failed to win a vote to limit debate. Before the deadlock, the Senate voted to increase mandatory child care funding by $7 billion over five years, compared with current funding. Major differences between the two versions of H.R. 4 include work rules, work activities, and child care funding.

Three Senate subcommittees have held hearings related to creating TANF grants for marriage promotion — a major innovation in both versions of H.R. 4, and the Department of Health and Human Services (HHS) has announced plans to fund a Health Marriage Resource Center as a repository and distribution center for information and research on marriage. Data from the Administration for Families and Children (ACF) show that HHS has launched 29 projects that it says are to strengthen marriage and families (including research and evaluation) at a total cost of $94.5 million. Most are multi-year projects.

The two versions of H.R. 4 revise and fund TANF and related programs for five years. Both raise the TANF work participation standard (eventually to 70%) but, in different ways, permit reduction of the standard, appropriate similar amounts for marriage promotion, authorize funds for fatherhood grants, increase weekly work hours (by different amounts), and allow partial credit for work hours below their separate and different standards. The Finance Committee bill also gives extra credit for hours above its standards and increases the list of countable work activities).

The House-passed bill raises the work week for TANF recipients to 40 hours (but gives partial credit for hours above 24). The Finance version of H.R. 4 lengthens the TANF week — to 34 hours for single parents without a preschooler (24 hours for those with a child under 6) and 39 hours for a two-parent family (55 hours if the family receives federally funded child care). See CRS Report RL32210 for a side-by-side comparison of the two bills with current law.

FY2002 TANF work participation rates fell slightly, to 33.4% for all families. In California and New York, which account for about 30% of all TANF families, the overall TANF caseload, including families in separate state-funded programs, climbed almost 2% in the first half of FY2004, and March numbers topped those of last year. July 2004 food stamp enrollment, at 24.3 million persons, was up 11% from a year earlier and the highest since October 1996.

Most Recent Developments

Congress has voted to extend TANF and related programs of mandatory child care, state grants for abstinence education, and transitional medicaid through March 31, 2005. Both houses passed the extension bill (H.R. 5149) on September 30, the deadline, and the President signed it the same day (P.L. 108-308). This marks the eighth extension of these programs, which have operated on FY2002 terms since the expiration of the original five-year appropriation. On October 12, the Department of Health and Human Services (HHS) announced award of $200 million in bonuses to 37 states and the District of Columbia for TANF high performance in FY2003. On September 30 HHS awarded bonuses to four of the five states that reduced non-marital birth rates between 1999-2000 and 2001-2002. On September 15, the Senate Appropriations Committee ordered reported its bill (S. 2810) to provide FY2005 appropriations for HHS. On September 9 the House passed its HHS appropriation bill (H.R. 5006). Neither bill includes TANF funding, but the conference report on the FY2005 budget (not yet passed by the Senate) assumes a five-year extension of TANF and related programs at current funding levels, plus creation of marriage promotion grants. On September 8, the Agriculture Department (USDA) announced state bonuses for high performance in the food stamp program. On August 23, the HHS said that the official TANF caseload decreased by 36,501 families (1.8%) during 2003. The official count omits a rising part of the overall caseload — families in separate state-funded programs.

Background and Analysis

Major Programs for Low-Income Families

FY2003 estimated spending for low-income children and their families by selected major income-tested programs reached $191.2 billion, up 11% from the FY2002 (revised) figure, $170.7 billion (**Table 1**). Federal funds paid 79% of the total. Spending rose from 10% to 12% for all categories of aid. The 4 largest spending programs for families with children were Medicaid, $77.3 billion; Earned income Tax Credit (refundable part) $34.2 billion; food stamps, $20.7 billion; and TANF ongoing cash aid, $13.9 billion. This accounting excludes spending for education benefits, job training, work programs, and various other services, including child care.

The official national TANF caseload in December 2003 held 2.008 million families, compared with the record peak of 5.084 million in March 1994 (and with 2,045 million a year before). For state caseloads, see [http://www.acf.hhs.gov/TANF_data.htm]. (If families in separate state-funded programs were included, the estimated December total would be about 2.2 million.) The food stamp caseload, steadily rising for two years, reached 24.3 million persons in July, the highest number since October 1996, and up 11% from a year before. The all-time peak was 28 million in March 1994. (See **Figure 1** for TANF and food stamp caseloads.) In FY2003, ongoing TANF cash was received by a monthly average of 5 million children; food stamps went to a monthly average of 17.4 million children. The number of children enrolled in Medicaid declined from 25.5 million in FY2002 to 25.3 million in FY2003, and the number of enrolled parents climbed from 12.9 million to 14 million. Enrollment in the State Children's Health Insurance program (SCHIP) rose from 5.4 million to 5.8 million children and from 0.3 million to 0.4 million adults.

Table 1. Estimated Income-Tested Outlays for Children and Their Families from Selected Major Programs, FY2002 and FY2003

	Federal Funds ($ in billions)		State/Local Funds ($ in billions)		Recipients[a] (millions)	
	FY2002	FY2003	FY2002	FY2003	FY2002	FY2003
Cash aid	**$45.8**	**$53.9**	**$6.6**	**$6.2**	**—**	**—**
(TANF)[b]	(6.5)	(7.7)	(6.6)	(6.2)	(5.1)[c]	(5)[c]
(EITC — refunds)[d]	(29.0)	(34.2)	0	0	(16.6)	(19)
(Child tax credit — refunds)[d]	(5.0)	(6.4)	0	0	(8.6)	n.a.
(SSI) (children only)	(5.3)	(5.6)	(0.19)[e]	(0.2)[e]	(0.91)	(0.95)
Food benefits	**30.2**	**33.4**	**1.3**	**1.4**	**—**	**—**
(Food stamps)[f]	(16.7)	(19.3)	1.3	1.4	(15.7)[c]	(17.4)[c]
(Subsidized meals)[g]	(9.1)	(9.6)	n.a.	n.a.	(18.0)[c]	(18.5)[c]
(WIC)	(4.4)	(4.6)	n.a.	n.a.	(7.5)[c]	(7.6)[c]
Major medical aid	**40.4**	**45.0**	**29.1**	**32.3**	**44** [c]	**45.7** [c]
(Medicaid)[h]	(36.7)	(40.6)	(27.7)	(30.6)	(38.4)[c]	(39.3)[c]
(SCHIP)[i]	(3.7)	(4.4)	(1.4)	(1.7)	(5.7)[c]	(6.2)[c]
Major housing aid	**17.3**	**19.0**	**0**	**0**	**23**	**2.33**
(Public housing)[J]	(3.7)	(3.5)	0[k]	0[k]	(0.538)[l]	(0.537)[l]
(Section 8)[m]	(9.3)	(10.5)	0	0	(1.66) [l]	(1.69)[l]
(Rural housing service programs)[n]	(4.3)	(5.0)	0	0	(0.1)[o]	(0.1)[o]

Note: Except in the case of Medicaid, 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 meal and child care programs by children from lower-income families; Medicaid, *yearly total* estimates of enrollment; EITC and child credit, *yearly total* number of *tax returns*; 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. Recipient count includes only persons receiving basic ongoing aid.

c. Includes parents. Child totals: food stamps (includes Puerto Rico), 10.3 million in FY2002, 11.4 million in FY2003; WIC, 5.7 million in FY2002, 5.8 million in FY2003; TANF, 3.8 million in FY2002 (FY2003 data are not available); Medicaid, 25.5 million and 25.3 million, respectively; SCHIP, 5.4 million and 5.8 million, respectively.

d. Credit earned in calendar year preceding the fiscal year (example, CY2002 for FY2003). Excludes credits used to offset tax liability. FY2003 EITC spending and recipient data are preliminary.

e. Federally administered state funds only (excludes state-administered programs).

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

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

h. Spending estimates are from the March 2002 and March 2003 baselines of CBO. The federal funding share is estimated at 57% of total spending.

i. Spending estimates are based on state expenditure reports.

j. Spending and recipient data are based on the FY2000 percentage of public housing units that included children (44.5%) and assume that spending for families with and without children is equally distributed. Expenditure data include the public housing capital fund and operating fund, HOPE VI, and the public housing drug elimination program.

k. Localities accept below-tax payments in lieu of property taxes on public housing projects.

l. Year-end data representing public housing-owned units under management and Section 8 units eligible for payment. Estimates assume that the proportion of units occupied by families with children has not changed since 2000.

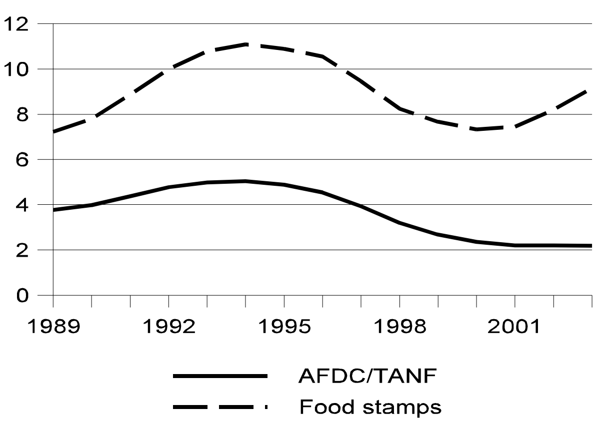
m. Spending and recipient data are based on the FY2000 percentage of Section 8 housing units that included children (47.2%). Section 8 data include vouchers and project-based contracts. Outlay data are not available for each component, and estimates assume that voucher and project-based contract costs are proportional to the distribution of units in each component. This assumption may be faulty, as per-voucher costs actually may exceed per-project-based costs. Estimates also assume that outlays are evenly distributed across family types, but it is likely that subsidies to families are greater than to others.
n. Subsidized loans to low-income persons for home ownership (Section 502) and rental aid (Sections 515/521).
o. Represents housing units, each of which generally can accommodate one family. Assistance was provided to 94,600 families in FY2002 and 89,500 in FY2003. The Rural Housing Service does not collect data on children in households.

FY2005 Appropriations

The House has passed its FY2005 HHS appropriation bill (H.Rept. 108-636), and the Senate Appropriations Committee has approved its bill (S.Rept. 108-345). The two bills provide identical amounts for some welfare-related items, including: monitoring children of prisoners, $50 million; individual development accounts, $24.9 million; community-based abstinence education, $104.5 million (including $4.5 million transferred for evaluation research from a research fund under Section 241 of the Public Health Service Act); and Title XX social service block grant, $1.7 billion. These amounts fulfilled budget requests, except for abstinence education ($81.9 million short). For the compassion capital fund, the House voted $55 million, and the Senate Committee, $47.7 million, both well below the budget request of $100 million. For the HHS Office of Faith-Based and Community Initiatives, the House granted the budget request of $1.4 million, but the Senate committee cut the amount to $1.386 million. Neither bill provides any funding for two items in the President's faith-based initiative that Congress has not authorized — maternity group homes and grants for responsible fatherhood programs.

TANF Trends and Data

Figure 1. AFDC/TANF Families and Food Stamp Households, in Millions FY1989-FY2003



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 these programs into a block ($16.6 billion annually through FY2002 and entitles each state to a fixed yearly sum based on pre-TANF funding. It also provides an average of $2.3 billion annually in a new child care block grant. 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 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 (50% of all families, including 90% of two-parent families — but these standards are lowered for caseload declines from FY1995 levels). States must 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 five-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). For single parent families, the law sets a TANF work week of 30 hours (20 hours if they have a child under 6, as most TANF single parents do). 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. (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. The House-passed H.R. 4 extends TMA for one year; the Finance H.R. 4 substitute, for five 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 six 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 FY2003 (as for FY2002), 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; also, they use TANF block grants for "direct" child care. FY2002 spending for TANF-funded child care (federal and state dollars) totaled $2.3 billion, exclusive of $1 billion transferred to CCDF and state spending that also could be counted toward sums needed to qualify for matching child care entitlement funds. Congress appropriated $2.1 billion in discretionary funds for FY2004. Mandatory funding for FY2004 remained at the $2.7 billion level of FY2002 and 2003.

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 five 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 seven 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 five 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) granted food stamp eligibility to noncitizens after their first five years in this country and to alien children regardless of their date of entry or length of U.S. residence.

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 five years were estimated at $23.3 billion. P.L. 105-33 provided $1.5 billion over five 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, proposed to increase SSBG funding for FY2003 and FY2004 (to $1.975 and $2.8 billion, respectively). However, Congress appropriated $1.7 billion for FY2004, and the House voted the same sum in its 2005 appropriation bill.

TANF Reauthorization Bills

(See CRS Report RL32210 for a side-by-side comparison of the two major bills of 2003.)

H.R. 4 — House-Passed Bill and Senate Finance Version

Work Rules. The House bill, passed on February 13, 2003, and the Senate Finance Committee version of H.R. 4 (PRIDE), ordered reported on October 3, 2003, both increase the all-family minimum participation requirement from the current 50% level to 70% by FY2008 (but, in different ways, permit reduction from the standard), end the separate higher rate for 2-parent families, and require TANF adults to engage in work or self-sufficiency activities more hours weekly than current law. The House bill requires an average of 40 hours per week (calculated on the basis of a 160 hour month, equivalent to 37 hours weekly) for all recipients except teen parents without a high school diploma. The Senate Committee bill sets the work week at 34 hours for single adult parents without a child under 6, up 4 hours from current law. The House bill allows only a list of 6 direct work activities to count toward the required 24 hour week (except for three months within 24, when states could count any TANF-promoting activity). The Senate Committee plan retains the existing law's list of 12 countable activities and — after 24 hours spent in one of these activities — permits five specified other activities, including postsecondary education, to be counted. See Table 1. The Senate bill also permits "parents as scholars" programs for some TANF recipients, whose participation would count as work. Both bills provide credits to reduce work participation rates. The House bill provides a caseload reduction credit (smaller than the one in current law). The Finance bill creates a credit for employment of families who leave the rolls; this credit is capped so that effective work targets cannot be reduced below 10% in FY2004, 20% in FY2005, 30% in FY2006, 40% in FY2007, and 50% in FY2008.

Other Provisions. Both bills maintain funding at current levels for basic block grants, supplemental grants, and the contingency fund (but ease access to the contingency fund). Both bills retain current time limit rules. The House bill requires states to end cash aid for a family for at least one month if the parent fails to engage in required activities for two months. Both bills end the nonmarital birth bonus and the high performance bonus and replace the latter with employment achievement bonuses. The House bill allows 50% of TANF funds to be transferred to the CCDBG (up from 30% in current law). Both bills establish marriage promotion grants (see Marriage Promotion under TANF Issues below). Both bills extend abstinence education grants for five years ($50 million yearly). The House bill creates new "superwaiver" authority for states to coordinate rules of 9 specified programs (including food stamps) for low-income families. (Also pending in the Senate are several TANF bills that have received no Committee action: S. 5, S. 367, S. 448, and S. 1443.)

TANF Issues

Definition of "Work Activities" and the Role of Education

What activities are countable in calculating a state's work participation rate? 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). Participation in vocational educational training and completion of high school can account for no more than 30% of 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, and Wisconsin (Community Service program) are TANF maximum benefits for a 3-person family (as of January 2004) high enough to provide the required sum for 30 hours of work at the federal minimum wage rate. 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 September 23, 2003, that work participation rates declined in FY2002 to 33.4% for all families and 49.4% for two-parent families (compared with 34.3% and 51.1%, respectively, in FY2001). All jurisdictions except Guam met their all-family adjusted minimum standards, but 5 of the 30 jurisdictions with two-parent families in the TANF program did not. Failing the two-parent standard were Arkansas, Delaware, Guam, Missouri, and West Virginia. Participation rates of the 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 (28.9% for all families and 44.2% for two-parent families). The statutory minimum work rates for FY2002 were 50% 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 21 states. See [http://www.acf.dhhs.gov/programs/ofa/2002/im2003-2.htm] for state rates. Both versions of H.R. 4 end the higher two-parent work rate.

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 five years ($200 million per year), resulting in a yearly sum of $2.9 billion. The Senate Finance version of H.R. 4 would raise mandatory funding by $6 billion above the House bill over five years (an increase of $1.2 billion per year), resulting in an annual sum of $4.1 billion.

"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. 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.) These charitable choice laws state that acceptance of federal funds does not affect a religious institution's exemption from the ban in Civil Rights law on religiously based employment discrimination. After his inauguration, President Bush proposed a "faith- based initiative," which set expansion of charitable choice as a key goal. The House voted (H.R. 7 in 2001) to extend charitable choice rules to nine new program areas and to offer tax incentives for charitable giving. However, the Senate did not pass this legislation. The President then turned to executive action, issuing an executive order (No. 13279) on December 12, 2002, that directed six Cabinet officers and the Administrator of AID, "to the extent permitted by law," to adopt charitable choice principles (laws governing Head Start, the Workforce Investment Act [WIA], and substance abuse prevention and treatment grants have provisions forbidding religious discrimination in hiring). Between January 4 and July 16, 2004, the Departments of Agriculture, Education, Health and Human Services (HHS), Housing and Urban Development (HUD), Justice, and Labor, and the Veterans Administration, issued final regulations to incorporate charitable choice principles in their social service programs. The new regulations spell out the terms under which faith-based organizations can provide federally funded services. See CRS Report RS21924, *Charitable Choice: Expansion by Executive Action.*

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. (See CRS Report RS21844 for a brief account of the Compassion Capital Fund.) The President's FY2005 budget repeats requests for two other faith-based initiatives not yet funded: responsible fatherhood grants and second-chance maternity homes. The CARE Act (S. 476), passed by the Senate April 9, 2003, 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-FY2007) in grants to nongovernmental organizations for technical assistance and other support to community-based organizations. H.R. 7, the Charitable Giving Act, passed by the House on

September 17, 2003, also provides compassion capital funding. The conference agreement on the FY2005 budget assumes funding for H.R. 7.

Using its new privatization authority, Wisconsin has contracted out the administration of TANF in some counties, and a 2002 General Accounting Office survey 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). In late October, 2004, Wisconsin officials said the state's largest private W-2 contractor, Opportunities Industrialization Center of Greater Milwaukee, had failed most performance standards and might lose its contract. In late April Florida submitted requests to HHS for waivers of existing law requiring public employees to determine eligibility for food stamps and Medicaid. The state said it wanted to privatize eligibility determination across all programs. In late June the Agriculture Department told Florida what conditions it must meet to obtain a food stamp waiver. H.R. 4766, as passed by the House July 20, prohibits federal cost sharing for any food stamp operations performed outside the United States. Effective October 1, 2004, this would apply to overseas centers handling calls about electronic benefit transfers (EBT). Most EBT cards for food stamps include TANF benefits.

Marriage Promotion

Both the House-passed H.R. 4 and the Finance Committee version of H.R. 4 (S.Rept. 108-162) appropriate $100 million annually for 50% matching competitive grants for programs to promote and support healthy, married two-parent families. (The grants are funded by repeal of the out-of-wedlock birth bonus in current law.) In addition, both bills appropriate $100 million yearly for research and demonstration projects and technical assistance and require that most of this money be devoted to marriage promotion activities. The House bill specifies that the $100 million demonstration fund must be used "primarily" for marriage promotion activities; the Senate bill earmarks $80 million for the purpose. If states use other TANF federal funds for marriage promotion, the House bill requires these funds to be treated as matching funds for the competitive grants; the Senate bill allows this treatment. The two bills list the same eight activities or programs as allowable uses of marriage promotion funds, but the Senate bill adds language to ensure that participation is voluntary and requires grant recipients to consult with experts in domestic violence issues. Promotion of marriage is an allowed use of TANF funds under current law. One of the statutory purposes of TANF is to promote the formation and maintenance of two-parent families. Another goal is to end dependency of needy parents on government benefits, and the law lists "marriage" as one of the means to this end. During FY2002, 22 states and the District of Columbia reported spending $215.3 million in TANF funds for two-parent family formation; the remaining 28 states reported no expenditures for this purpose. Data from HHS show that the Administration for Children and Families (ACF) has made multi-year grants totaling $94.5 million in projects to strengthen marriage and families (including research and evaluation). The grants were from the following ACF offices: Office of Planning, Research, and Evaluation, $81.7 million (most for seven- to nine-year projects); Office of Refugee Resettlement, $5.4 million; Children's Bureau, $4.1 million; Office of Child Support, $3.1 million (these grants require non-federal matching funds); and Office of Community Services, $0.1 million. (In some cases strengthening marriage is one program component among many.)

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 (P.L. 105-33) 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 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. In response to complaints that narrow eligibility conditions were inhibiting enrollment, Congress liberalized terms in 1999, and the next year it gave states and competitive grantees another two years in which to spend WtW funds. As of September 30, 2002, about 19% of net WtW awards remained unspent. The FY2004 appropriations act (P.L. 108-199) rescinded any WtW formula grants amounts allotted to states from funds appropriated for FY1999 that were unspent on January 23, except for certain close-out costs. (For more background, see CRS Report RS20134.)

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 five years for matching grants for job access grants to serve welfare families and other low-income persons (income not above 150% of the poverty guideline) and reverse commute grants to suburban employment centers to serve all populations. The law limits reverse commute funding to $10 million yearly. As noted above, states may use TANF funds, within limits, as state matching funds for these grants. Appropriations rose from $75 million for FY1999 to $149 million for FY2003, but were about $125 million for FY2004. In FY1999, the Federal Transit Administration (FTA) awarded competitive grants to 206 projects, but Congress now earmarks virtually all of the funding. The FY2005 budget proposed to consolidate these grants with others, but Congress did not reauthorize the program. Instead, it extended the program, on current terms, through May 31, 2005. The President on February 24 issued an executive order (No. 13330) directing agencies to coordinate transportation services. This has resulted in an initiative called United We Ride. See [http://www.fta.dot.gov/].

Table 2. Selected Work Provisions of House-Passed and Senate Finance Committee Versions of H.R. 4

	House-Passed H.R. 4	Senate Committee H.R. 4 Bill
Required participation rates	Rates increased yearly, from 50% in FY2004 to peak of 70% in FY2008	Same as House bill
Credits against participation rate	Caseload reduction credit. Reduces target rate by 1 percentage point for each percentage cut in caseload from a moving base year. By FY2007 base reaches FY2003.	Employment credit. Reduces target rate by the percentage of families who leave cash aid with a job for 2 consecutive quarters. Caps credit so that effective target rates cannot be cut below 50% by FY2008.
Work activities	6 direct work activities (unsubsidized jobs, subsidized private jobs, subsidized public jobs, on-the-job training, supervised work experience, and supervised community service).* Gives credit — after 24 hours weekly in direct work — for any other state-defined activity leading to self-sufficiency. Note: for three months any state-chosen activity could be deemed to meet 24 hour direct work rule.	17 activities, 12 in current law plus 5 new ones. Gives credit — after 24 hours weekly in current law activities — for postsecondary education, adult literacy, substance abuse services, barrier-removal services, and grandfathered pre-TANF waiver programs and activities of any state. Also permits time-limited participation in specified "rehabilitation" activities.
Work hours	40 hour weekly average — with 24 "core" hours (direct work). Note: retains current law special rule for teen parents without high school diploma. (satisfactory school attendance or 20 hours of education directly related to work).	Single parent — 24 hours if have child under 6 (34 hours otherwise). Two-parent family — 39 hours (55 if receive child care). Like House bill, retains special rule for teen parents without high school diploma.
Partial credit for work hours below the standard	Pro-rated credit for hours above 24 but below 40. No credit for hours below 24.	Partial credit for hours below standard and extra credit for hours above standard. For single parents, no credit for hours below 20. For two-parent families, no credit for hours below 26 (below 40 if receive federally funded child care).
Universal engagement	Requires development of a self-sufficiency plan for each family with a work-eligible person. Sets penalty for failure to establish plans.	Very similar to House bill
Child care (entitlement funding)	Appropriates $2.9 billion in entitlement funds for each of FY2004 through FY2008 (a 5-year increase of $1 billion over current law).	Same as House bill. However, the Senate amended the bill to provide $4.1 billion for each of 5 years (a $7 billion increase over 5 years from current law).

* Direct work activities in House bill exclude three activities that have priority status in current law — job search, vocational educational training, and providing child care for community service participant had been awarded.

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 state 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. 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. In passing TANF reauthorization bills, the House has twice voted (H.R. 4737 in 2002 and H.R. 4 in 2003) to allow states to transfer 50% of TANF funds to CCDBG. P.L. 108-199 (FY2004 appropriations) set the SSBG transfer limit SSBG at 10%, but the House-passed FY2005 appropriation bill (H.R. 5006) reduces it to 4.25%. (The Senate Finance Committee appropriation bill retains the 10% transfer cap.) During FY2003, states transferred 11% of TANF funds ($1.9 billion) to CCDBG and 6% ($948 million) to SSBG.

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 RS21591). The FY2000 and FY2001 budgets requested funding for new Welfare to Work (WtW) housing vouchers, but Congress denied the requests, and subsequent budgets have sought no new WtW housing vouchers. The FY2005 budget proposes to replace Section 8 housing vouchers with a block grant to local public housing authorities. It is similar to a proposal called Housing Assistance for Needy Families (HANF), that was made last year but not adopted by Congress. House and Senate Appropriation Committees have voted to increase Section 8 housing vouchers for FY2005. The administration sought $13.1 billion; appropriation committees have proposed $14.7 billion (House) and $20.7 billion (Senate). For a discussion of the use of housing aid by TANF recipients, see CRS Report RL32104.

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. Three states still have pre-TANF waivers in operation — Hawaii (ending September 30), Massachusetts, and Tennessee. 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 *H.R. 4: Other Provisions.*

Tax Credits for Hiring Welfare Recipients

In 1997, Congress established a Welfare-to-Work (WAW) 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 nine months. P.L. 106-554 added "renewal communities" to the areas where a tax credit is offered for hiring resident youth. Both credits expired on December 31, 2003, but Congress restored them retroactively and extended them through December 2005 in passing the tax cut extension bill (H.R. 1308) on September 23. 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 IDAs. According to HHS, 31 states allow TANF recipients to establish IDAs, including IDAs under the Assets for Independence Act (AIA) five-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-FY2001. 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, and the U.S. budget for FY2005 recommends such a plan. H.R. 7, passed by the House in September, continues the existing AIA/ IDA program for five years. P.L. 108-199 appropriated $24.9 million for the AIA program for FY2004, and the House approved the same amount for FY2005 (H.R. 5006).

Unspent TANF Funds

As of September 30, 2003, HHS reports that states had an unspent and unobligated balance in the U.S. Treasury of $2.3 billion in TANF funds. In addition, unliquidated obligations totaled $1.6 billion. Twelve states had no balances left to obligate: CA, CO, CT, IL, IN, LA, MA, OR, SC, TN, VT, and WA. 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 and the Finance Committee H.R. 4 both 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 FY2003, child support enforcement offices collected $10.3 billion assigned by TANF and former TANF families. Of this sum, $7.2 billion was distributed to former TANF families and $837 million to TANF families; most of the rest was used to reimburse federal and state governments for 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. Both H.R. 4 and the Finance Committee substitute for this bill have provisions to promote "responsible fatherhood" and distribute more child support directly to families.

TANF Bonus Funds

On September 30, 2004, HHS announced award of $100 million in bonuses to four of the five states that achieved reductions in unwed birth ratios while also decreasing abortion rates. This was the sixth annual bonus, and it was won by the District of Columbia (for the sixth time), New York, Maryland, and New Hampshire (the fifth state, Connecticut, received no bonus because its abortion rate increased. On October 12, the Department announced award of the sixth TANF high-performance bonuses: $200 million went to 37 states and the District of Columbia , based on state rankings (absolute and relative) on various measures: success in the workforce, job entry, participation in food stamps, coverage by Medicaid/SCHIP, child care subsidies and percentage of children in two-parent families. H.R. 4 and PRIDE would eliminate nonwork measures from high performance bonus award. (and would eliminate non-marital birth bonuses). For state rankings and high performance bonuses, see [http://www.acf.dhhs.gov/programs/opre/hpb/index.htm].

LEGISLATION

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

H.R. 4 (Pryce)
Reauthorizes TANF, on new terms, for five years. Passed House February 13, 2003. Senate Finance Committee rewrote the bill and ordered it reported on October 3, 2003 (S.Rept. 108-162). See text above.

H.R. 2770 (Pallone)
TANF and Indians. Provides special funding for tribal programs. Introduced July 17; 2003, referred to several committees.

H.R. 4939 (Ford)
ASPIRE Act. Provides subsidized savings accounts for children. Senate companion S. 2751. Introduced July 22, 2004.

H.R. 5149 (Herger)
TANF and related programs. Continues programs through March 31, 2005. Introduced September 24. Passed by both houses and signed into law (P.L. 108-308) on September 30.

S. 5 (Talent)
TANF reauthorization. Very similar to House-passed H.R. 4, but increases marriage funds and has new anti-fraud and food stamp provisions. Introduced February 14, 2003.

S. 262 (Bingaman)
TANF. Removes percentage limit on recipients who may receive work credit for educational activity. Stops time clock for certain activity. Introduced January 30, 2003.

S. 263 (Bingaman)
TANF and waivers. Allows states to continue waivers scheduled to expire between October 1, 2002 and September 30, 2007. Requires approval of applications for waivers similar to those continued above. Introduced January 30, 2003. See also S. 605.

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. Increases funding, adds new work activities, allows continuation of pre-TANF waivers. Introduced February 12, 2003.

S. 448 (Dodd)
TANF reauthorization. Provides poverty reduction bonus, increases federal minimum wage, ends time limit for those with severe work barriers. Introduced February 26, 2003.

S. 574 (Corzine)
TANF. Stops the federal time clock for months of assistance received during periods of high unemployment. Introduced March 7, 2003.

S. 657 (Bayh)
TANF. Provides fatherhood grants within TANF. Introduced March 19, 2003.

S. 669 (Snowe)
Child support. Provides more help for ex-welfare families. Introduced March 19, 2003.

S. 770 (Feingold)
TANF. Sets due process rules and reporting rules. Introduced April 2, 2003.

S. 786 (Bingaman)
TANF. Provides grants for transitional jobs programs. Introduced April 3, 2003. See also H.R. 3560.

S. 813 (Corzine)
TANF. Requires states to promote financial education and treat it as a countable work activity. Introduced April 8, 2003.

S. 1443 (Carper, Nelson of Nebraska, and Collins)
TANF reauthorization. Doubles length of countable vocational education, provides credit for part-time work, increases child care funding. Introduced July 22, 2003.

S. 2213 (Rockefeller)

TANF. Requires research on child well-being indicators. Introduced March 12, 2004.

S. 2256 (Cantwell)

TANF. Exempts high-skill, high-demand jobs from time limit. Introduced March 30, 2004.

For Additional Reading

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

CRS Report RL32233. *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2000-FY2002,* comp. Vee Burke.

CRS Report RS21924. *Charitable Choice: Expansion by Executive Action,* 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 RL32104. *Housing Assistance and Welfare: Background and Issues for the 108th Congress,* by Maggie McCarty

CRS Report 97-86. *Indian Tribes and Welfare Reform,* by Vee Burke.

CRS Report RL32598. *TANF Cash Benefits as of January 1, 2004,* by Meredith Walters, Gene Falk, and Vee Burke.

CRS Report RL32210. *TANF Reauthorization: Side-by-Side Comparison of Current Law and Two Versions of H.R. 4,* by Vee Burke and Gene Falk.

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 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.