June 9, 1995

MEMORANDUM FOR THE CHIEF OF STAFF

cal   am   Donna   LDT

FROM: Carol Rasco, Alice Rivlin, Donna Shalala, Laura Tyson

SUBJECT: Welfare Reform -- Key Strategic Questions for the Senate

Summary

Senate Finance approved a welfare reform bill two weeks ago and we expect to see it on the Senate floor within the next week. The Senate debate may be the last opportunity to make major changes before it comes to the President.

This memo describes the Finance bill and major concerns that we all agree need to be addressed. The purpose of our Monday meeting is to talk through strategy questions. <u>At a minimum, we believe it is essential that we heighten the President's profile on key issues on welfare over the next couple of weeks</u>. We should meet with the President to decide how best to influence the Senate debate.

Finance Committee Bill

Like the House bill, the Finance bill would make dramatic cuts in many areas, impose infeasible work requirements, and end requirements that states match federal spending. The cuts themselves are very serious. Worse yet, a system of fixed block grants with no state match and few adjustments for economic and demographic change, coupled with a set of unworkable work standards and much less money for training and child care, is likely to set off a largely irreversible "race to the bottom," as states move to provide less and less for poor families.

Specifically, the Finance bill would:

- o End the AFDC individual entitlement and combine the current AFDC, Emergency Assistance, JOBS, and mandatory child care programs into a single, frozen block grant, with total funding set at FY 1994 levels.

- o Require no state matching or maintenance of effort.

- o Mandate tough work requirements while providing less money for work and child care.

- o Make deep cuts in benefits to legal immigrants and SSI benefits.

On the positive side, the Finance bill is an improvement from the House version because it doesn't include all the conservative "strings" unconditionally restricting benefits to teen moms and certain others. The child support enforcement reforms are similar to those the Administration proposed. Child protective services are untouched and SSI childhood disability reforms are less draconian than in the House bill.

The Finance bill cuts funding nearly as deeply as the serious reductions in the House-passed bill. CBO's preliminary estimate is that the Finance proposal saves $26 billion over five years (and $42 billion over seven). The House bill's savings were more than double these amounts, but include food program cuts which have not yet been addressed by the Senate. The Senate's cuts of SSI to legal immigrants are deeper, but other cuts smaller. (A more complete summary of the Finance bill is attached.) This level of cuts could do real damage and it is unlikely that states will mount effective welfare-to-work programs at this diminished level of resources.

In other Senate developments, the Agriculture Committee is expected to mark up legislation covering the food programs next week for possible inclusion in the Finance bill when it goes to the Floor. Our efforts appear to be successful in stopping both the Food Stamp and nutrition block grants -- although a state option to block grant Food Stamps may be included. The Agriculture Committee will still need to find very sizable savings from the programs to achieve its targets. The Labor and Human Resources Committee approved reauthorization of the discretionary Child Care and Development Block Grant, with relatively little change from the current authorization; this may also be added on the Floor as an amendment to the welfare bill. In addition to the provisions concerning immigrants in the Finance bill, this week Senator Simpson's Judiciary subcommittee began mark up of immigration legislation which affects benefits to immigrants. Again, this may be added on the Floor.

Democratic Alternatives

Democrats offered alternatives at the Finance Committee markup, all of which were defeated. It's not clear yet if they will be united for floor action, though efforts are being made. Senator Moynihan introduced a bill that would continue AFDC as an individual entitlement, expand work and training requirements, and increase funding for JOBS. It has an estimated cost (which is offset) of approximately $8 billion over five years. Senators Conrad and Moseley-Braun have developed serious alternatives as well.

In addition, a Democratic leadership group (Daschle, Breaux, and Mikulski) announced its alternative bill yesterday. They hope to unite nearly all Democrats in support of the alternative. Their plan would repeal AFDC and replace it with a "conditional entitlement" based on work, with substantial funding (which is offset) for work and child care, and with two-years-and-work and five-years-and-out provisions (with certain hardship exemptions). The JOBS program would be replaced by a work block grant. Work participation rates would rise significantly by 2000, and states would receive bonus payments for reaching certain employment and duration-of-employment levels.

Democratic alternatives have little chance of passage. Indeed, it doesn't appear the Democratic alternatives will stop several Democratic Senators from supporting the Finance bill. Already, Senator Baucus voted for the bill in Committee.

Issues

There are four crucial concerns with the Senate bill:

1. Maintenance of Effort -- The Finance bill, like the House-passed legislation, does not require states to continue contributing their own funds to AFDC's successor block grant program. There is not even a requirement that they maintain their current level of effort. States can withdraw their own funds, cut benefits, purge large numbers of current recipients from the rolls, and avoid the investments needed to help people become self-sufficient. Under the current system, if poorer states such as Mississippi or Arkansas reduce spending by $1 they lose another $4 in federal funds. Even the wealthier states lose at least $1 for every $1 they cut. With the current block grant proposals, if a state cuts spending it loses no federal funds. And if one state starts imposing dramatic benefit cuts or short absolute time limits, neighboring states will naturally fear welfare migration and feel pressure to cut their own programs. Conversely, investments in one state designed to help recipients move permanently from welfare to work, such as training or child care, may seem particularly likely to attract recipients from elsewhere. We need to insist on a state match or maintenance of current effort requirement to fight against the "race to the bottom" incentives in the Republican bills. An alternative would be inclusion of a mechanism in the bill that cuts federal payments if a state reduces its own spending below 1994 levels.

2. Counter-Cyclical Adjustment -- The Finance bill, again like the House-passed bill, freezes the level of the new block grant in future years. Should the country go into a recession -- or should some region suffer economic distress -- it offers little in the way of added assistance to meet increased need. The Finance bill creates a very modest one-time $1.7 billion "rainy day" revolving loan fund to help states during recessions but it requires that any funds distributed be repayable with interest. This is inadequate. There is no guarantee that a state's economy will have improved by the time it must repay its loan from the fund or that it will be able to borrow the amount required to maintain current benefits. We should insist on some adjustments for increasing a state's allocation based on an increase in the number of poor children or a rise in unemployment or population. (Senators from states with growing populations, generally in the Sunbelt, are already asking for the bill to be amended to provide better protection for their allocations in the outyears.)

3. Resources and Incentives for Work -- The Finance bill expects states to meet ambitious work targets with considerably less money. By the year 2000, almost 2 million people would have to be working or training, unless states cut people off and reduce caseloads. CBO has estimated that only 6 States could meet these

requirements, because it would cost $10 billion a year by the year 2000 for every state to comply. (Chairman Packwood seemed surprised by CBO's report and may be willing to make some adjustments to the bill before taking it to the Floor.) If states were to choose to spend enough to meet the work requirements, a relatively small portion would be left to provide basic assistance to poor families and children. On the other hand, if states choose to emphasize providing benefits, they may simply accept the 5 percent block grant penalty for not meeting the work requirements and reduce their expenditures on work and training. By putting the money for benefits and services into one pot, both the Senate and the House bills would force states to make a decision about providing one at the expense of the other. It makes no sense to be asking millions more mothers to go to work while providing dramatically less child care than current law. Nearly two-thirds of welfare mothers have children under 6; 42% have children aged 2 years or less. <u>We should insist on more support for work, training and child care and on splitting the block grant in two so that benefit funding is separate from funding for work and child care. We should reward states with performance bonuses for putting more people to work, instead of giving states incentives to cut people off.</u>

4. <u>Basic Protections for Children</u> -- To protect children, we should avoid conservative mandates like a mandatory cut-off of unmarried mothers under 18 and their children and mandatory family caps, but the bill must also include provisions that will mitigate the race to the bottom. We should seek some exemptions from time limits for children whose parents are unable to work or find work. We should try to reduce the level of cuts in programs for children. HHS also believes that we should require states to serve all children that meet whatever need and eligibility rules the state adopts. As noted above, the Senate bill cuts almost as deeply as the House-passed bill. The AFDC/JOBS cuts preclude the establishment of effective welfare-to-work programs. The immigrant cuts are immense and the SSI cuts for disabled children and the nutrition cuts go too far. <u>We should insist on basic protections for children</u>. We need to try to mitigate the level of cuts in the Senate bill. Without these changes the combination of dramatic federal cuts in many areas, the unworkable work requirements, and the lack of maintenance of effort provisions open the possibility of even larger cuts at the State level and a very harmful race to the bottom. And as budget caps get tighter and tighter, the pressure to cut Federal spending further on the block grants is likely to increase.

Purpose of Meeting

We recommend we arrange a meeting as soon as possible with appropriate senior Administration officials to discuss how best to achieve these changes in the Senate. Important questions:

o <u>Do we explicitly threaten to veto the bill over any or all of these issues?</u>

A veto threat can send a clear message of what the Administration stands for -- and will not stand for -- in welfare policy. In the area of Food Stamps, the threat of a veto may have played an important role in blunting the momentum behind converting the program into a block grant.

On the other hand, Republicans on the Hill may well prefer to see the President veto a welfare reform bill and would like a road map about how to ensure one. Specific veto threats might make it less likely the legislation improves, and we could also receive criticism from more friendly sources should we choose to draw the veto line in a place different from where they would like.

If the decision is that a veto threat would be a useful tactic, we would still need to discuss the specifics of which provisions are named as unacceptable and what changes could be made to them to render them acceptable.

o <u>What should the President and the Administration do to influence the Senate debate?</u>

Once the veto threat question is resolved, we still need to discuss how best to influence the Senate debate. What profile should the President and the Administration strike in that debate? What should we say about the Senate bill once it is passed?

Senate Finance Welfare Bill -- Summary

AFDC and Work-Related Programs

Combined Block Grant--The bill approved by the Finance Committee combines AFDC, Emergency Assistance, JOBS, and three mandatory child care programs into a single, level-funded block grant of $16.8 billion (which represents the FY 1994 funding level for these programs). There is no annual inflation adjustment to the new "Temporary Family Assistance Grant," and the reduction over seven years for these programs is approximately $11 billion (CBO estimate). The Senate version lumped more programs into their Temporary Family Assistance Grant (AFDC, Emergency Assistance, JOBS and Child Care), while the House bill consolidated Child Care programs under a separate block grant.

Fewer Mandates--The Senate bill has fewer strings on State spending. Requirements that minor mothers live at home, the prohibition of benefits to children born on welfare, and restrictions on assistance to parents who fail to establish paternity are all dropped. Also, States can choose whether to pay cash assistance to non-citizen families who lack sponsors.

Work Programs

Participation Rates--By FY 2001, the Senate Finance bill requires half of single parents to participate in work/training activities, which the House bill does by FY 2003. The Senate bill, however, lets States exempt certain categories of beneficiaries (up to about 60% of the adult caseload) up through FY 1998, by allowing them to extend current law exemption categories. After FY 1998, no exemptions will be allowed and States face a very large increase in required participation. States not meeting the new rates may have their grant reduced by 5% the next fiscal year. The Senate bill requires that States guarantee child care for recipients who need care for children under age 6 to participate in JOBS activities but ends this guarantee for children 6 and over.

CBO analysis raised a major issue during the Senate Finance committee mark-up. CBO estimated States would need a total of $10 billion by FY 2000 (a full 60% of the block grant) to meet the set work targets, leaving far fewer funds to pay benefits. Further, CBO estimated that only 6 States would be able to meet the new requirements and that the remainder instead would opt for the 5% grant reduction penalty. Chairman Packwood was concerned by this finding, and feared the Administration would criticize the legislation as setting unrealistic work participation goals. He pledged to work with Senator Conrad to address CBO's findings, so it is possible that a Senate floor amendment somehow will alter the work portion of the block grant.

Child Protective Programs

The Senate Finance-passed bill leaves child protective programs unchanged. (The House bill combined, capped and cut Foster Care, Adoption Assistance and other mandatory child protective services by $2 billion over five years.)

Immigrant Assistance

The Senate Finance bill has three major immigrant provisions: (a) denial of SSI benefits for most immigrants; (b) deeming of sponsor's income for certain programs, notably Medicaid; (c) authority for states to deny immigrants cash assistance. While Senate Finance immigration provisions apply to fewer programs, cuts are harsher than comparable House action, which had comparatively more exemptions for SSI and Medicaid.

SSI Restrictions--The bill ends SSI benefits for most immigrants, except for: refugees and asylees (for five years); immigrants who have worked long enough to qualify for Social Security benefits; veterans and their spouses and children. The provision takes effect upon enactment for new applicants and on January 1, 1997 for those currently on the rolls. The somewhat less stringent House SSI provisions exempted more immigrants: those over 75; lawfully admitted permanent residents who cannot naturalize due to disability; refugees and veterans. CBO estimates the Senate SSI immigration provision would save about $11 billion over five years and about $17 billion over seven years. About 550,000 immigrants would be made ineligible for SSI benefits in the year 2000.

Medicaid Restrictions--The Senate Finance bill deems sponsor's income for programs authorized by the Social Security Act for five years *or* the length of a sponsor's affidavit of support, whichever is longer. The provision includes Medicaid, which currently lacks a deeming requirement. It is unclear how many immigrants would be affected and Medicaid savings estimates are not yet available.

Supplemental Security Income for Children

Cash Benefits--Under the Senate Finance Committee bill, benefits continue to be in the form of cash. (By contrast, the House bill limits cash benefits to those currently on the rolls and 20-50% of the most severely disabled applicants. Services funded by block grants to States replace 75% of the value of the former cash benefits.) Retaining only cash benefits is a stance the Administration can support.

Eligibility & Program Integrity--The Senate Finance bill establishes a new more stringent definition of childhood disability that effectively reverses the Supreme Court's 1990 *Zebley* decision by raising the level of severity of impairment(s) needed to qualify for SSI. The bill also requires periodic eligibility re-determinations to ensure that SSI is not erroneously paid to ineligible individuals. (The House bill has more severe eligibility restrictions.)

Cost Estimates--SSI children's provisions save about $7 billion over five years and about $11 billion over seven years, including the Medicaid and Food Stamp interactions. About 250,000 currently eligible children would be denied SSI in the year 2000.

Supplemental Security Income for Drug Addicts and Alcoholics

The Senate Finance Committee's bill, like the House bill, ends SSI eligibility for individuals whose drug addiction or alcoholism is a "contributing factor" to their disability. Under the Senate version, benefits would continue more than a year longer but the Senate bill does not reinvest part of the savings into drug treatment and research. Savings are about $2 billion over five years and about $3 billion over 7 years (CBO), which are very similar to House savings.

Child Support Enforcement

The Finance bill adopts most of the Administration child support enforcement proposals, as does the House-passed bill.

JUN 0 2 1995

MEMORANDUM

TO: Carol Rasco and Laura Tyson

FROM: Ken Apfel Ken Apfel

RE: Welfare Reform

Director Rivlin asked me to share the attached draft memo with you in advance of the meeting of the three of you scheduled for 2:30 on Monday.

~~Confidential~~ Draft

June 2, 1995

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: Carol Rasco, Alice Rivlin, Laura Tyson

SUBJECT: Welfare Reform -- Time to Decide

Summary

Senate Finance approved a welfare reform bill last week and we expect to see it on the Senate floor the week of June 12th unless delayed by fights over allocation formulas. The bill is similar to the one the House passed, although marginally better, and if the Administration -- and the President -- are going to influence the outcome we need to do it in the coming week or so. If the Senate endorses the key elements of the Finance bill there will be little opportunity to significantly change it before it comes to the President.

This memo describes the Finance bill and four big problems we think need to be addressed. We believe that senior officials should talk through the issues and strategy questions in the very near future. We've got to arrange a meeting with the President within the next few days to decide whether we should draw lines in the sand.

Finance Committee Bill

Closely akin to the House-passed legislation, the Finance bill would make dramatic cuts in many areas, impose unworkable work requirements, and end requirements that States match Federal spending. <u>If enacted, this legislation would represent the most serious cuts in programs designed to support families and children in our Nation's history.</u> And given the fact that Federal dollars are capped, it would only be the beginning -- things will get much worse in our next downturn.

Specifically, the Finane bill would:

- o Combine the current AFDC, Emergency Assistance, JOBS, and mandatory child care programs into a single, frozen block grant, with total funding set at FY 1994 levels.
- o Require no State matching or maintenance of effort.
- o Limit benefits to five years (less at State option), with States allowed to exempt 10% of the caseload.
- o Mandate tough -- and given the amount of funding, unrealistic -- work requirements.
- o Make deep cuts in benefits to legal immigrants and SSI benefits.

On the positive side, the Finance bill is an improvement from the House version because it doesn't include all the conservative "strings" unconditionally restricting benefits to teen moms and certain others. The child support enforcement reforms are similar to those the Administration proposed. And, in other improvements over the House bill, child protective services are untouched and SSI childhood disability reforms are less draconian.

The Finance bill cuts funding nearly as deeply as the serious reductions in the House-passed bill. CBO's preliminary estimate is that the Finance proposal saves $26 billion over five years (and $42 billion over seven). The House bill's savings were more than double these amounts, but include food program cuts which have not yet been addressed by the Senate. The Senate's SSI cuts to legal immigrants are deeper, but other cuts smaller. (A more complete summary of the Finance bill is attached.) This level of cuts could do real damage and it is unlikely that States will mount effective welfare-to-work programs at this level of resources.

In other Senate committee action, the Agriculture Committee is scheduled to mark up legislation covering the food programs on June 7th for possible inclusion in the Finance bill. when it goes to the Floor. Our efforts appear to be successful in stopping both the Food Stamp and nutrition block grants -- although a State option to block grant Food Stamps may be included. The Agriculture Committee will still need to find very sizable savings from the programs to achieve its targets. The Labor and Human Resources Committee approved reauthorization of the discretionary Child Care and Development Block Grant, with relatively little change from the current authorization; this may also be added on the Floor as an amendment to the welfare bill. In addition to action on assistance to immigrants by Senate Finance, legislation with implications for benefits to immigrants may be forthcoming from Senator Simpson's Judiciary subcommittee; this may also be added on the Floor.

Democrats' Alternatives

Democrats offered alternatives at the Finance Committee markup, all of which were defeated. It's not clear yet if they will be united for floor action, though efforts are being made. Senator Moynihan introduced a bill that makes a statement rather than serving as the possible basis for negotiations with Republicans; Moynihan would clearly prefer the President veto whatever legislation the Congress produces. Moynihan's bill would continue AFDC as an individual entitlement, expand work and training requirements, and increase funding for JOBS. It has an estimated cost (which is offset) of approximately $8 billion over five years.

A Democratic leadership group (Daschle, Breaux, and Mikulski) has announced plans to offer an alternative on the Senate Floor. They have not formally submitted legislation, but preliminary indications are that their plan would continue the AFDC entitlement but with two-years-and-work and five-years-and-out provisions (with certain hardship exemptions). The JOBS program would be replaced by a block grant. Work participation rates would rise significantly by 2000, and States would receive bonus payments for reaching certain employment and duration-of-employment levels. Democratic alternatives have no chance of passage. Indeed, it doesn't appear the Democratic alternatives will stop several Democratic Senators from supporting the Finance bill. Already, Senator Baucus voted for the bill in

Committee.

Issues

The central question in the debate this year has been whether to retain the entitlement to AFDC benefits. It appears this question has been settled on the Hill -- the entitlement is gone. There are certain protections that the entitlement provides that are lost under the capped, frozen block grant approach in the Finance bill. For one, the current program is based upon a Federal/State funding structure, which requires States to pay a portion of benefits to the impoverished. For another, the entitlement allows the program to expand as necessary to meet the increased need during times of economic difficulty. <u>If we are going to consider ending the individual entitlement, we must address these two cornerstone issues.</u> Specifically:

- o <u>State Match Requirements</u> -- The Finance bill, like the House-passed legislation, does not require States to continue contributing their own funds to AFDC's successor block grant program. There is not even a requirement that they maintain their current level of effort. States can withdraw their own funds, purge large numbers of current recipients from the rolls or cut benefits and avoid the investments needed to help people become self-sufficient. <u>Ideally, we should retain the existing state match requirement to maintain incentives for States to provide support.</u> At a minimum, we need to insist on a maintenance of current effort requirement to fight against the "race to the bottom" incentives in the Republican bills. An alternative would be inclusion of a mechanism in the bill that cuts Federal payments if a State reduces its own spending below 1994 levels.

- o <u>Counter-Cyclical Adjustment</u> -- The Finance bill, again like the House-passed bill, freezes the level of the new block grant in future years. Should the country go into a recession -- or should some region suffer economic distress -- it offers little in the way of added assistance to meet increased need. The Finance bill creates a very modest one-time $1.7 billion "rainy day" revolving loan fund to help States during recessions but it requires that any funds distributed be repayable with interest. This is inadequate. There is no guarantee that a State's economy will have improved by the time it must repay its loan from the fund or that it will be able to borrow the amount required to maintain current benefits. <u>The bill should provide some adjustment for increasing a State's allocation based upon an increase in the number of poor children or on unemployment or demographic factors.</u> (Senators from States with growing populations, generally in the Sunbelt, are already asking for the bill to be amended to provide better protection for their allocations in the outyears.)

Once these two issues are addressed, there are two additional issues with the Finance bill that also need to be addressed:

- o <u>Size of Cuts</u> -- As noted above, the Finance bill cuts almost as deeply as the House-passed bill. In recent discussions with the President, we have talked about savings from these programs at less than half the level of the Republican bills as being acceptable. The AFDC/JOBS cuts preclude the establishment of effective welfare-to-work programs. The immigrant cuts are simply immense and the nutrition cuts go too far as well. The cuts in the Senate bill are too much to take out of poverty programs and we need to try to mitigate them.

- Workable Work Requirements -- The Finance bill has serious work requirements. Meeting them would be quite difficult even with considerably more resources. By the year 2000, almost 2 million people would have to be working or training, unless States cut people off and reduce caseloads. But there are less resources than under current law. CBO, in fact, estimated that to meet the requirements would take up such a substantial portion of the block grant funds that only 6 States could manage it. (Chairman Packwood seemed surprised by CBO's report and may be willing to make some adjustments to the bill before taking it to the Floor.) We should insist on more support for training and on splitting the block grant in two so that benefit funding is separate from services funding.

Without these changes, there is a very high likelihood that this bill will increase poverty and harm children. The combination of dramatic federal cuts in many areas, the unworkable work requirements, and the end of match rules open the possibility of even larger cuts at the State level and a very harmful race to the bottom. And as budget caps get tighter and tighter, the pressure to cut Federal spending on the block grants further is likely to increase.

There are other issues with the Senate bill but we believe they are not as important to fix. The four above are what we need to focus on. HHS may suggest some other issues such as insisting on protections for children in families effected by the time limits or increasing the percentage of the caseload States can exempt from the time limits. They may also suggest mandating a State provide equal treatment to children on a statewide basis or even an alternative funding structure that is based on a capped per case amount. We need to hear out the HHS concerns.

Conclusion

We recommend we arrange a meeting for as early this week as we can with appropriate senior Administration officials to talk through these issues and develop a strategy. Important questions:

- Is there agreement that the four issues we list are the most important?
- What specific changes would we advocate to the Senate bill?
- What's the best method for seeking them?
- Do we explicitly threaten to veto the bill over any or all of them?
- How do we best integrate our strategy with the Senate Democrats?

Senate Finance Welfare Bill -- Summary

AFDC and Work-Related Programs

Combined Block Grant--The bill approved by the Finance Committee combines AFDC, Emergency Assistance, JOBS, and three mandatory child care programs into a single, level-funded block grant of $16.8 billion (which represents the FY 1994 funding level for these programs). There is no annual inflation adjustment to the new "Temporary Family Assistance Grant," and the reduction over seven years for these programs is approximately $11 billion (CBO estimate). The Senate version lumped more programs into their Temporary Family Assistance Grant (AFDC, Emergency Assistance, JOBS and Child Care), while the House bill consolidated Child Care programs under a separate block grant.

Fewer Mandates--A positive aspect of the Senate bill is that it has fewer strings on State spending. Requirements that minor mothers live at home, the prohibition of benefits to children born on welfare, and restrictions on assistance to parents who fail to establish paternity are all dropped. Also, States can choose whether to pay cash assistance to non-citizen families who lack sponsors.

Work Programs

Participation Rates--By FY 2001, the Senate Finance bill requires half of single parents to participate in work/training activities, which the House bill does by FY 2003. The Senate bill, however, lets States exempt certain categories of beneficiaries (up to about 60% of the adult caseload) up through FY 1998, by allowing them to extend current law exemption categories. After FY 1998, no exemptions will be allowed and States face a very large increase in required participation. States not meeting the new rates may have their grant reduced by 5% the next fiscal year. The Senate bill requires that States guarantee child care for recipients who need care for children under age 6 to participate in JOBS activities but ends this guarantee for children 6 and over.

CBO analysis raised a major issue during the Senate Finance committee mark-up. CBO estimated States would need a total of $10 billion by FY 2000 (a full 60% of the block grant) to meet the set work targets, leaving far fewer funds to pay benefits. Further, CBO estimated that only 6 States would be able to meet the new requirements and that the remainder instead would opt for the 5% grant reduction penalty. Chairman Packwood was concerned by this finding, and feared the Administration would criticize the legislation as setting unrealistic work participation goals. He pledged to work with Senator Conrad to address CBO's findings, so it is possible that a Senate floor amendment somehow will alter the work portion of the block grant.

Child Protective Programs

Taking a stance that the Administration can support, the Senate Finance-passed bill leaves child protective programs unchanged. (The House bill combined, capped and cut Foster Care, Adoption Assistance and other mandatory child protective services by $2 billion over five years.)

Immigrant Assistance

The Senate Finance bill has three major immigrant provisions: (a) denial of SSI benefits for most immigrants; (b) deeming of sponsor's income for certain programs, notably Medicaid; (c) authority for states to deny immigrants cash assistance. While Senate Finance immigration provisions apply to fewer programs, cuts are harsher than comparable House action, which had comparatively more exemptions for SSI and Medicaid.

SSI Restrictions--The bill ends SSI benefits for most immigrants, except for: refugees and asylees (for five years); immigrants who have worked long enough to qualify for Social Security benefits; veterans and their spouses and children. The provision takes effect upon enactment for new applicants and on January 1, 1997 for those currently on the rolls. The somewhat less stringent House SSI provisions exempted more immigrants: those over 75; lawfully admitted permanent residents who cannot naturalize due to disability; refugees and veterans. CBO estimates the Senate SSI immigration provision would save about $11 billion over five years and about $17 billion over seven years. About 550,000 immigrants would be made ineligible for SSI benefits in the year 2000.

Medicaid Restrictions--The Senate Finance bill deems sponsor's income for programs authorized by the Social Security Act for five years *or* the length of a sponsor's affidavit of support, whichever is longer. The provision includes Medicaid, which currently lacks a deeming requirement. It is unclear how many immigrants would be affected and Medicaid savings estimates are not yet available.

Supplemental Security Income for Children

Cash Benefits--Under the Senate Finance Committee bill, benefits continue to be in the form of cash. (By contrast, the House bill limits cash benefits to those currently on the rolls and 20-50% of the most severely disabled applicants. Services funded by block grants to States replace 75% of the value of the former cash benefits.) Retaining only cash benefits is a stance the Administration can support.

Eligibility & Program Integrity--The Senate Finance bill establishes a new more stringent definition of childhood disability that effectively reverses the Supreme Court's 1990 *Zebley* decision by raising the level of severity of impairment(s) needed to qualify for SSI. The bill also requires periodic eligibility re-determinations to ensure that SSI is not erroneously paid to ineligible individuals. (The House bill has more severe eligibility restrictions.)

Cost Estimates--SSI children's provisions save about $7 billion over five years and about $11 billion over seven years, including the Medicaid and Food Stamp interactions. About 250,000 currently eligible children would be denied SSI in the year 2000.

The Administration could support tightened eligibility standards, but those in the Finance

Committee bill are too stringent. We should take a position somewhere between Senator Moynihan's bill (which is as strict as the Finance Committee) and Senator Conrad's bill (which has limited reductions in the rolls).

Supplemental Security Income for Drug Addicts and Alcoholics

The Senate Finance Committee's bill, like the House bill, ends SSI eligibility for individuals whose drug addiction or alcoholism is a "contributing factor" to their disability. Under the Senate version, benefits would continue more than a year longer but the Senate bill does not reinvest part of the savings into drug treatment and research. Savings are about $2 billion over five years and about $3 billion over 7 years (CBO), which are very similar to House savings.

Child Support Enforcement

The Finance bill adopts many Administration child support enforcement proposals, as does the House-passed bill. While there are some minor changes we'd like to make, this is generally an area where we have achieved a great deal.

DPC
~~Confidential~~ Draft
June 6, 1995

These are big names — worries me about leaks

[redacted]

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: Carol Rasco, Alice Rivlin, Laura Tyson, Donna Shalala

SUBJECT: Welfare Reform -- Time to Decide

Summary

within the next two — the Senate debate may be the last opportunity to make major

Senate Finance approved a welfare reform bill two weeks ago and we expect to see it on the Senate floor ~~the~~ weeks ~~of June 19th unless delayed by fights over allocation formulas. The bill is similar to the one the House passed, although marginally better, and if the Administration — and the President — are going to influence the outcome we need to do it in the coming week or so. If the Senate endorses the key elements of the Finance bill there will be little opportunity to significantly~~ changes ~~it~~ before it comes to the President.

This memo describes the Finance bill and major concerns that we all agree need to be addressed. We believe that senior officials should talk through the strategy questions on how to achieve our goals in the very near future. We should also arrange a meeting with the President within the next few days to decide ~~whether and how we should take stands on the elements of the emerging legislation~~ how best to influence the Senate debate.

Finance Committee Bill

Like the House bill,
~~Closely akin to the House-passed legislation,~~ the Finance bill would make dramatic cuts in many areas, impose infeasible work requirements, and end requirements that states match federal spending. ~~We fear that a bill such as this could lead to the most dramatic dismantling of protections for children in our nation's history. The cuts themselves are very serious. Worse still, we believe a~~ A system of fixed block grants with no state match and few adjustments for economic and demographic change, coupled with a set of unworkable work standards and much less money for training and child care, is likely to set off a largely irreversible "race to the bottom", as states move to provide less and less for poor families. ~~In California, Connecticut, and Massachusetts the race has already begun.~~

← No - too inflammatory.

← No - we'll probably sign those waivers.

Specifically, the Finance bill would:

- End the AFDC individual entitlement and combine the current AFDC, Emergency Assistance, JOBS, and mandatory child care programs into a single, frozen block grant, with total funding set at FY 1994 levels.

- Require no state matching or maintenance of effort.

- Limit benefits to five years ~~(less at state option), with states allowed to exempt 15%~~ of the caseload. ← in Demo alternatives.

- Mandate tough ~~-- and given the amount of funding, unrealistic --~~ work requirements, while providing less money for work and child care.

- Make deep cuts in benefits to legal immigrants and SSI benefits.

On the positive side, the Finance bill is an improvement from the House version because it doesn't include all the conservative "strings" unconditionally restricting benefits to teen moms and certain others. The child support enforcement reforms are similar to those the Administration proposed. Child protective services are untouched and SSI childhood disability reforms are less draconian than in the House bill.

The Finance bill cuts funding nearly as deeply as the serious reductions in the House-passed bill. CBO's preliminary estimate is that the Finance proposal saves $26 billion over five years (and $42 billion over seven). The House bill's savings were more than double these amounts, but include food program cuts which have not yet been addressed by the Senate. The Senate's cuts of SSI to legal immigrants are deeper, but other cuts smaller. (A more complete summary of the Finance bill is attached.) ~~This level of cuts could do real damage and~~ It is unlikely that States will mount effective welfare-to-work programs at this diminished level of resources.

In other Senate developments, the Agriculture Committee is expected to mark up legislation covering the food programs late this week for possible inclusion in the Finance bill when it goes to the Floor. Our efforts appear to be successful in stopping both the Food Stamp and nutrition block grants -- although a State option to block grant Food Stamps may be included. The Agriculture Committee will still need to find very sizable savings from the programs to achieve its targets. The Labor and Human Resources Committee approved reauthorization of the discretionary Child Care and Development Block Grant, with relatively little change from the current authorization; this may also be added on the Floor as an amendment to the welfare bill. In addition to the provisions concerning immigrants in the Finance bill, Senator Simpson's Judiciary subcommittee may soon mark up immigration legislation which affects benefits to immigrants. Again, this may be added on the Floor.

Democratic Alternatives

Democrats offered alternatives at the Finance Committee markup, all of which were defeated. It's not clear yet if they will be united for floor action, though efforts are being made. Senator Moynihan introduced a bill that makes a statement rather than serving as the possible basis for negotiations with Republicans; Moynihan would clearly prefer the President veto whatever legislation the Congress produces. Moynihan's bill would continue AFDC as an individual entitlement, expand work and training requirements, and increase funding for JOBS. It has an estimated <u>cost</u> (which is offset) of approximately $8 billion over five years.

Their plan would repeal AFDC and replace it with a conditional entitlement based on work, with substantial funding (which is offered for work and child care, a

A Democratic leadership group (Daschle, Breaux, and Mikulski) ~~has~~ will announced ~~plans to~~ its offer ~~an~~ alternative ~~on the Senate Floor~~ this week. ~~They have not formally submitted legislation, but preliminary indications are that their plan would continue the AFDC entitlement but~~ with two-years-and-work and five-years-and-out provisions (with certain hardship exemptions). The JOBS program would be replaced by a work block grant. Work participation rates would rise significantly by 2000, and states would receive bonus payments for reaching certain employment and duration-of-employment levels. Democratic alternatives have no chance of passage. Indeed, it doesn't appear the Democratic alternatives will stop several Democratic Senators from supporting the Finance bill. Already, Senator Baucus voted for the bill in Committee.

Issues The Admin has been working with Senate Democrats to improve the Senate bill in four critical areas:

~~One of the central questions in the debate this year has been whether to retain the entitlement to AFDC benefits. All of the Republican bills end it, all of the major Democratic alternatives retain it in some form. What is lost with the ending of the current individual entitlement and replacing it with a fixed block grant are three elements that form the underpinnings of the system of basic support for children. These three elements are: (a) joint state and federal financing with state contributions matched by federal ones, (b) open ended funding so states can draw down additional money whenever they need to do so as long as they put up their share, and (c) the requirement that all children who meet whatever rules the state creates be treated equally (i.e. no one is denied aid because it is late in the year and the budget is tight).~~

~~Completely eliminating these elements is likely to create strong incentives to cut funding, eligibility, and benefits in a destructive competition to run the toughest welfare system.~~ ~~Today~~ Under the current system, if poorer states such as Mississippi or Arkansas reduce spending by $1 they lose another $4 in federal funds. Even the wealthier states lose at least $1 for every $1 they cut. ~~With~~ Under the current block grant proposals, if a state cuts spending it loses no federal funds. And if one state starts imposing dramatic benefit cuts or short absolute time limits, neighboring states will ~~naturally~~ fear welfare migration and feel pressure to cut their own programs. Conversely, investments designed to help recipients move permanently from welfare to work, such as training or child care, may seem particularly likely to attract recipients from elsewhere. ~~And whereas the current entitlement funding automatically expands to meet new needs in times of economic distress or demographic change, block grants will put states facing change in a serve bind and likely lead to further cuts.~~

Move to A) on p.4

~~If we are going to consider ending the individual entitlement without risking real harm to children, we must address two cornerstone issues. Specifically:~~

- 1. Maintenance of Effort ~~State Match Requirements~~ -- The Finance bill, like the House-passed legislation, does not require states to continue contributing their own funds to AFDC's successor block grant program. There is not even a requirement that they maintain their current level of effort. States can withdraw their own funds, cut benefits, purge large numbers of

INSERT (A) from p. 3

current recipients from the rolls, and avoid the investments needed to help people become self-sufficient. ~~Ideally, we should retain the existing state match requirement to maintain incentives for states to provide support.~~ ~~At a minimum,~~ We need to insist on a maintenance of current effort requirement to fight against the "race to the bottom" incentives in the Republican bills. An alternative would be inclusion of a mechanism in the bill that cuts federal payments if a state reduces its own spending below 1994 levels.

REASON: No Dem is going to offer such an amdt. The Pres said yesterday his #1 priority is maintenance of effort.

2. Counter-Cyclical Adjustment -- The Finance bill, again like the House-passed bill, freezes the level of the new block grant in future years. Should the country go into a recession -- or should some region suffer economic distress -- it offers little in the way of added assistance to meet increased need. The Finance bill creates a very modest one-time $1.7 billion "rainy day" revolving loan fund to help states during recessions but it requires that any funds distributed be repayable with interest. This is inadequate. There is no guarantee that a state's economy will have improved by the time it must repay its loan from the fund or that it will be able to borrow the amount required to maintain current benefits. Instead, the bill should ~~provide some adjustment for increasing a state's allocation based upon an increase in the number of poor children or on unemployment or demographic factors.~~ make it possible for states to spend more in the event of economic downturn, population growth, or natural disaster. (Senators from states with growing populations, generally in the Sunbelt, are already asking for the bill to be amended to provide better protection for their allocations in the outyears.)

~~Once these two issues are addressed, there are three additional issues with the Finance bill that also need to be addressed.~~

3. Resources + Incentives for Work -- ~~Workable Work Requirements~~ -- The Finance bill ~~has serious work requirements.~~ expects states to meet ambitious work targets with considerably less money. ~~Meeting them would be quite difficult even with considerably more resources.~~ By the year 2000, almost 2 million people would have to be working or training, unless states cut people off and reduce caseloads. ~~But there are less resources than under current law.~~ CBO ~~, in fact,~~ has estimated that ~~to meet the requirements would take up such a substantial portion of the block grant funds that~~ only 6 States could ~~manage it.~~ meet those requirements, because it would cost $10B a yr by the yr 2000 for every state to comply. (Chairman Packwood seemed surprised by CBO's report and may be willing to make some adjustments to the bill before taking it to the Floor.) It makes no sense to be asking millions more mothers to go to work while providing dramatically less child care than current law. Nearly two-thirds of welfare mothers have children under 6; 42% have children aged 2 years or less. We should insist on more support for work, training and child care and on splitting the block grant in two so that benefit funding is separate from ~~services~~ funding for work and child care. We should reward states with performance bonuses for putting more people to work, ~~not give them~~ instead of giving states incentives to cut people off.

o ~~Size of Cuts -- As noted above, the Finance bill cuts almost as deeply as the House-passed bill. In recent discussions with the President, we have talked about savings from these programs at less than half the level of the Republican bills as being acceptable. The AFDC/JOBS cuts preclude the establishment of effective welfare-to-work programs. The immigrant cuts are immense and the nutrition cuts go too far as~~

REASON:

↑ MOVE TO KIDS SECTION (see below)

well. The cuts in the Senate bill are too much to take out of poverty programs and we need to try to mitigate them.

o Basic Protections for Children -- To protect children, we should avoid conservative mandates like a mandatory cut-off of unmarried mothers under 18 and their children and mandatory family caps, but it must also include provisions that will mitigate the race to the bottom. ~~These include requirements [that states serve all the children that they define as needy and eligible, and that they] Bruce -- is language in brackets okay?~~ we should seek ~~provide~~ some exemptions from time limits for children whose parents are unable to work or find work. We should insist on basic protections for children.

NO -- that's just another way to restate the entitlement. We'll never get it, & the only practical effect is to make it easier to sue the states in court

We should try to reduce cuts in nutrition programs, SSI for disabled children and immigrants

~~In summary~~, Without these changes, ~~there is a very high likelihood that this bill will increase~~ poverty and harm children. The combination of dramatic federal cuts in many areas, the unworkable work requirements, and the ~~end of match rules~~ lack of a maintenance of effort provision open the possibility of even larger cuts at the State level and a very harmful race to the bottom. And as budget caps get tighter and tighter, the pressure to cut Federal spending on the block grants further is likely to increase.

Purpose of Meeting

We recommend we arrange a meeting as soon as possible with appropriate senior Administration officials to ~~develop a strategy~~ discuss how best to achieve these changes in the Senate. Important questions:

o Do we explicitly threaten to veto the bill over any or all of these issues?

A veto threat can send a clear message of what the Administration stands for -- and will not stand for -- in welfare policy. In the area of Food Stamps, the threat of a veto is playing an important role in blunting the momentum behind converting the program into a block grant.

On the other hand, ~~there are~~ Republicans on the Hill ~~that~~ may well prefer to see the President veto a welfare reform bill and ~~giving them a signal~~ would like a roadmap about how to ~~make this come about, may only~~ ensure one. specific veto threats might ~~give them a roadmap~~ will make it less likely the legislation improves, and We could also receive criticism from more friendly sources should we choose to draw the veto line in a place different ~~than~~ from where they would like.

If the decision is that a veto threat would be a useful tactic, we would still need to discuss the specifics of which provisions are named as unacceptable and what changes could be made to them to render them acceptable.

o <u>What specific changes would we advocate to the Senate bill?</u>

Once the veto threat question is resolved, we still need to discuss ~~what amendments we are going to seek to the Finance bill to address the issues listed above. How best to work with Senate Democrats on them?~~ how best to influence the Senate debate. What profile should the President and the Admin strike in that debate? ~~And~~ What should we say about the Senate bill once it passes?

Senate Finance Welfare Bill -- Summary

AFDC and Work-Related Programs

Combined Block Grant--The bill approved by the Finance Committee combines AFDC, Emergency Assistance, JOBS, and three mandatory child care programs into a single, level-funded block grant of $16.8 billion (which represents the FY 1994 funding level for these programs). There is no annual inflation adjustment to the new "Temporary Family Assistance Grant," and the reduction over seven years for these programs is approximately $11 billion (CBO estimate). The Senate version lumped more programs into their Temporary Family Assistance Grant (AFDC, Emergency Assistance, JOBS and Child Care), while the House bill consolidated Child Care programs under a separate block grant.

Fewer Mandates--A positive aspect of the Senate bill is that it has fewer strings on State spending. Requirements that minor mothers live at home, the prohibition of benefits to children born on welfare, and restrictions on assistance to parents who fail to establish paternity are all dropped. Also, States can choose whether to pay cash assistance to non-citizen families who lack sponsors.

Work Programs

Participation Rates--By FY 2001, the Senate Finance bill requires half of single parents to participate in work/training activities, which the House bill does by FY 2003. The Senate bill, however, lets States exempt certain categories of beneficiaries (up to about 60% of the adult caseload) up through FY 1998, by allowing them to extend current law exemption categories. After FY 1998, no exemptions will be allowed and States face a very large increase in required participation. States not meeting the new rates may have their grant reduced by 5% the next fiscal year. The Senate bill requires that States guarantee child care for recipients who need care for children under age 6 to participate in JOBS activities but ends this guarantee for children 6 and over.

CBO analysis raised a major issue during the Senate Finance committee mark-up. CBO estimated States would need a total of $10 billion by FY 2000 (a full 60% of the block grant) to meet the set work targets, leaving far fewer funds to pay benefits. Further, CBO estimated that only 6 States would be able to meet the new requirements and that the remainder instead would opt for the 5% grant reduction penalty. Chairman Packwood was concerned by this finding, and feared the Administration would criticize the legislation as setting unrealistic work participation goals. He pledged to work with Senator Conrad to address CBO's findings, so it is possible that a Senate floor amendment somehow will alter the work portion of the block grant.

Child Protective Programs

Taking a stance that the Administration can support, the Senate Finance-passed bill leaves child protective programs unchanged. (The House bill combined, capped and cut Foster Care, Adoption Assistance and other mandatory child protective services by $2 billion over five years.)

Immigrant Assistance

The Senate Finance bill has three major immigrant provisions: (a) denial of SSI benefits for most immigrants; (b) deeming of sponsor's income for certain programs, notably Medicaid; (c) authority for states to deny immigrants cash assistance. While Senate Finance immigration provisions apply to fewer programs, cuts are harsher than comparable House action, which had comparatively more exemptions for SSI and Medicaid.

SSI Restrictions--The bill ends SSI benefits for most immigrants, except for: refugees and asylees (for five years); immigrants who have worked long enough to qualify for Social Security benefits; veterans and their spouses and children. The provision takes effect upon enactment for new applicants and on January 1, 1997 for those currently on the rolls. The somewhat less stringent House SSI provisions exempted more immigrants: those over 75; lawfully admitted permanent residents who cannot naturalize due to disability; refugees and veterans. CBO estimates the Senate SSI immigration provision would save about $11 billion over five years and about $17 billion over seven years. About 550,000 immigrants would be made ineligible for SSI benefits in the year 2000.

Medicaid Restrictions--The Senate Finance bill deems sponsor's income for programs authorized by the Social Security Act for five years *or* the length of a sponsor's affidavit of support, whichever is longer. The provision includes Medicaid, which currently lacks a deeming requirement. It is unclear how many immigrants would be affected and Medicaid savings estimates are not yet available.

Supplemental Security Income for Children

Cash Benefits--Under the Senate Finance Committee bill, benefits continue to be in the form of cash. (By contrast, the House bill limits cash benefits to those currently on the rolls and 20-50% of the most severely disabled applicants. Services funded by block grants to States replace 75% of the value of the former cash benefits.) Retaining only cash benefits is a stance the Administration can support.

Eligibility & Program Integrity--The Senate Finance bill establishes a new more stringent definition of childhood disability that effectively reverses the Supreme Court's 1990 *Zebley* decision by raising the level of severity of impairment(s) needed to qualify for SSI. The bill also requires periodic eligibility re-determinations to ensure that SSI is not erroneously paid to ineligible individuals. (The House bill has more severe eligibility restrictions.)

Cost Estimates--SSI children's provisions save about $7 billion over five years and about $11 billion over seven years, including the Medicaid and Food Stamp interactions. About 250,000 currently eligible children would be denied SSI in the year 2000.

The Administration could support tightened eligibility standards, but those in the Finance Committee bill are too stringent. We should take a position somewhere between Senator Moynihan's bill (which is as strict as the Finance Committee) and Senator Conrad's bill (which has limited reductions in the rolls).

Supplemental Security Income for Drug Addicts and Alcoholics

The Senate Finance Committee's bill, like the House bill, ends SSI eligibility for individuals whose drug addiction or alcoholism is a "contributing factor" to their disability. Under the Senate version, benefits would continue more than a year longer but the Senate bill does not reinvest part of the savings into drug treatment and research. Savings are about $2 billion over five years and about $3 billion over 7 years (CBO), which are very similar to House savings.

Child Support Enforcement

The Finance bill adopts many Administration child support enforcement proposals, as does the House-passed bill. While there are some minor changes we'd like to make, this is generally an area where we have achieved a great deal.

To: Ken Apfel

From: David Ellwood

Re: Memo

Date: June 9, 1995

HHS is now signed off on the memo.

Bruce has ok'd the sentence on p. 4 that begins "HHS also believes that we should require states to serve all children..."

Bruce also suggested a revision to the second paragraph of the memo. I've drafted something but haven't been able to reach Bruce for final ok.

The suggested revision is to replace the second paragraph (the one beginning "This memo describes..." with the following:

> This memo describes the Finance bill and major concerns that we all agree need to be addressed. The purpose of our Monday meeting is to talk through strategy questions. <u>At a minimum, we believe it is essential that we sharpen our stands on key issues and significantly heighten the President's visibility on welfare in the next couple of weeks</u>. We should meet with the President to decide how best to influence the Senate debate.

cc: Bruce Reed

TDS

~~Confidential~~ Draft
June 8, 1995

Ken - all these have been approved by Bruce except the last one "HHS believes..." I have not yet discussed it. Assuming no more changes, we are now signed off. DTE

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: Carol Rasco, Alice Rivlin, Donna Shalala, Laura Tyson

SUBJECT: Welfare Reform -- Key Strategic Questions for the Senate

Summary

Senate Finance approved a welfare reform bill two weeks ago and we expect to see it on the Senate floor within ~~the next two weeks~~ the next week. The Senate debate may be the last opportunity to make major changes before it comes to the President.

This memo describes the Finance bill and major concerns that we all agree need to be addressed. We believe that senior officials should talk through the strategy questions on how to achieve our goals in the very near future. We should also arrange a meeting with the President within the next few days to decide how best to influence the Senate debate.

Finance Committee Bill

Like the House bill, the Finance bill would make dramatic cuts in many areas, impose infeasible work requirements, and end requirements that states match federal spending. A system of fixed block grants with no state match and few adjustments for economic and demographic change, coupled with a set of unworkable work standards and much less money for training and child care, is likely to set off a largely irreversible "race to the bottom," as states move to provide less and less for poor families.

The cuts themselves are very serious. Worse yet, a

Specifically, the Finance bill would:

- o End the AFDC individual entitlement and combine the current AFDC, Emergency Assistance, JOBS, and mandatory child care programs into a single, frozen block grant, with total funding set at FY 1994 levels.
- o Require no state matching or maintenance of effort.
- o Mandate tough work requirements while providing less money for work and child care.
- o Make deep cuts in benefits to legal immigrants and SSI benefits.

On the positive side, the Finance bill is an improvement from the House version because it doesn't include all the conservative "strings" unconditionally restricting benefits to teen moms and certain others. The child support enforcement reforms are similar to those the Administration proposed. Child protective services are untouched and SSI childhood disability reforms are less draconian than in the House bill.

The Finance bill cuts funding nearly as deeply as the serious reductions in the House-passed bill. CBO's preliminary estimate is that the Finance proposal saves $26 billion over five years (and $42 billion over seven). The House bill's savings were more than double these amounts, but include food program cuts which have not yet been addressed by the Senate. The Senate's cuts of SSI to legal immigrants are deeper, but other cuts smaller. (A more complete summary of the Finance bill is attached.) This level of cuts could do real damage and it is unlikely that states will mount effective welfare-to-work programs at this diminished level of resources.

In other Senate developments, the Agriculture Committee is expected to mark up legislation covering the food programs next week for possible inclusion in the Finance bill when it goes to the Floor. Our efforts appear to be successful in stopping both the Food Stamp and nutrition block grants -- although a state option to block grant Food Stamps may be included. The Agriculture Committee will still need to find very sizable savings from the programs to achieve its targets. The Labor and Human Resources Committee approved reauthorization of the discretionary Child Care and Development Block Grant, with relatively little change from the current authorization; this may also be added on the Floor as an amendment to the welfare bill. In addition to the ~~provisions concerning~~ immigrants in the Finance bill, Today Senator Simpson's Judiciary subcommittee marked up ~~may soon mark up~~ immigration legislation which affects benefits to immigrants. Again, this may be added on the Floor.

Democratic Alternatives

Democrats offered alternatives at the Finance Committee markup, all of which were defeated. It's not clear ~~yet if~~ they will be united for floor action, though efforts are being made. Senator Moynihan has introduced a bill ~~that makes a statement rather than serving as the possible basis for negotiations with Republicans; Moynihan would clearly prefer the President veto whatever legislation the Congress produces. Moynihan's bill~~ that would continue AFDC as an individual entitlement, expand work and training requirements, and increase funding for JOBS. It has an estimated cost (which is offset) of approximately $8 billion over five years. Senators Conrad and Moseley-Braun have developed serious alternatives as well

In addition, ~~A~~ a Democratic leadership group (Daschle, Breaux, and Mikulski) announced its alternative bill today ~~will announce its alternative this week~~. Their plan would repeal AFDC and replace it with a conditional entitlement based on work, with substantial funding (which is offset) for work and child care, and with two-years-and-work and five-years-and-out provisions (with certain hardship exemptions). The JOBS program would be replaced by a work block grant. Work participation rates would rise significantly by 2000, and states would receive bonus payments for reaching certain employment and duration-of-employment levels.

They hope to unite nearly all Democrats in support of the alternative.

Democratic alternatives have no chance of passage. Indeed, it doesn't appear the Democratic alternatives will stop several Democratic Senators from supporting the Finance bill. Already, Senator Baucus voted for the bill in Committee.

Issues

~~The Administration has been working with Senate Democrats to improve the Senate bill in four critical areas:~~ There are four crucial concerns with the Senate bill.

1. Maintenance of Effort -- The Finance bill, like the House-passed legislation, does not require states to continue contributing their own funds to AFDC's successor block grant program. There is not even a requirement that they maintain their current level of effort. States can withdraw their own funds, cut benefits, purge large numbers of current recipients from the rolls, and avoid the investments needed to help people become self-sufficient. Under the current system, if poorer states such as Mississippi or Arkansas reduce spending by $1 they lose another $4 in federal funds. Even the wealthier states lose at least $1 for every $1 they cut. With the current block grant proposals, if a state cuts spending it loses no federal funds. And if one state starts imposing dramatic benefit cuts or short absolute time limits, neighboring states will naturally fear welfare migration and feel pressure to cut their own programs. Conversely, investments in one state designed to help recipients move permanently from welfare to work, such as training or child care, may seem particularly likely to attract recipients from elsewhere. We need to insist on a maintenance of current effort requirement to fight against the "race to the bottom" incentives in the Republican bills. An alternative would be inclusion of a mechanism in the bill that cuts federal payments if a state reduces its own spending below 1994 levels. State match or [underline]

2. Counter-Cyclical Adjustment -- The Finance bill, again like the House-passed bill, freezes the level of the new block grant in future years. Should the country go into a recession -- or should some region suffer economic distress -- it offers little in the way of added assistance to meet increased need. The Finance bill creates a very modest one-time $1.7 billion "rainy day" revolving loan fund to help states during recessions but it requires that any funds distributed be repayable with interest. This is inadequate. There is no guarantee that a state's economy will have improved by the time it must repay its loan from the fund or that it will be able to borrow the amount required to maintain current benefits. ~~Instead, the bill should make it possible for states to spend more in the event of economic downturn, population growth, or natural disaster.~~ (Senators from states with growing populations, generally in the Sunbelt, are already asking for the bill to be amended to provide better protection for their allocations in the outyears.)

3. Resources and Incentives for Work -- The Finance bill expects states to meet ambitious work targets with considerably less money. By the year 2000, almost 2 million people would have to be working or training, unless states cut people off and reduce caseloads. CBO has estimated that only 6 States could meet these

~~The bill~~ We should ~~provide~~ insist on some adjustments for increasing a State's allocation based on an increase in the number of poor children or a rise in unemployment or population. [underline] requirements, because it would cost $10 billion a year by the year 2000 for every state to comply. (Chairman Packwood seemed surprised by CBO's report and may be willing to make some adjustments to the bill before taking it to the Floor.) If states were to choose to spend enough to meet the work requirements, a relatively small portion would be left to provide basic assistance to poor families and children. On the other hand, if states choose to emphasize providing benefits, they may simply accept the 5 percent block grant penalty for not meeting the work requirements and reduce their expenditures on work and training. By putting the money for benefits and services into one pot, both the Senate and the House bills would force states to make a decision about providing one at the expense of the other. It makes no sense to be asking millions more mothers to go to work while providing dramatically less child care than current law. Nearly two-thirds of welfare mothers have children under 6; 42% have children aged 2 years or less. <u>We should insist on more support for work, training and child care and on splitting the block grant in two so that benefit funding is separate from funding for work and child care. We should reward states with performance bonuses for putting more people to work, instead of giving states incentives to cut people off.</u> OK

4. <u>Basic Protections for Children</u> -- To protect children, we should avoid conservative mandates like a mandatory cut-off of unmarried mothers under 18 and their children and mandatory family caps, but the bill must also include provisions that will mitigate the race to the bottom. We should seek some exemptions from time limits for children whose parents are unable to work or find work. We should try to reduce the level of cuts in programs for children. (As noted above, the Senate bill cuts almost as deeply as the House-passed bill. The AFDC/JOBS cuts preclude the establishment of effective welfare-to-work programs. The immigrant cuts are immense and the SSI cuts for disabled children and the nutrition cuts go too far.) <u>We should insist on basic protections for children</u>. We need to try to mitigate the level of cuts in the Senate bill. Without these changes the combination of dramatic federal cuts in many areas, the unworkable work requirements, and the lack of maintenance of effort provisions open the possibility of even larger cuts at the State level and a very harmful race to the bottom. And as budget caps get tighter and tighter, the pressure to cut Federal spending further on the block grants is likely to increase.

HHS also believes that we should require States to serve all children that meet whatever eligibility rules the State adopts. (need +)

Purpose of Meeting

We recommend we arrange a meeting as soon as possible with appropriate senior Administration officials to discuss how best to achieve these changes in the Senate. Important questions:

o <u>Do we explicitly threaten to veto the bill over any or all of these issues?</u>

A veto threat can send a clear message of what the Administration stands for -- and will not stand for -- in welfare policy. In the area of Food Stamps, the threat of a veto may have played an important role in blunting the momentum behind converting the program into a block grant.

On the other hand, Republicans on the Hill may well prefer to see the President veto a welfare reform bill and would like a road map about how to ensure one. Specific veto threats might make it less likely the legislation improves, and we could also receive criticism from more friendly sources should we choose to draw the veto line in a place different from where they would like.

If the decision is that a veto threat would be a useful tactic, we would still need to discuss the specifics of which provisions are named as unacceptable and what changes could be made to them to render them acceptable.

o <u>What should the President and the Administration do to influence the Senate debate?</u>

Once the veto threat question is resolved, we still need to discuss how best to influence the Senate debate. What profile should the President and the Administration strike in that debate? What should we say about the Senate bill once it is passed?

~~Confidential~~ Draft
June 6, 1995

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: Carol Rasco, Alice Rivlin, Donna Shalala, Laura Tyson

SUBJECT: Welfare Reform -- Time to Decide

Summary

Senate Finance approved a welfare reform bill two weeks ago and we expect to see it on the Senate floor within the next two weeks. The Senate debate may be the last opportunity to make major changes before it comes to the President.

This memo describes the Finance bill and major concerns that we all agree need to be addressed. We believe that senior officials should talk through the strategy questions on how to achieve our goals in the very near future. We should also arrange a meeting with the President within the next few days to decide how best to influence the Senate debate.

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Like the House bill, the Finance bill would make dramatic cuts in many areas, impose infeasible work requirements, and end requirements that states match federal spending. A system of fixed block grants with no state match and few adjustments for economic and demographic change, coupled with a set of unworkable work standards and much less money for training and child care, is likely to set off a largely irreversible "race to the bottom," as states move to provide less and less for poor families.

Specifically, the Finance bill would:

- End the AFDC individual entitlement and combine the current AFDC, Emergency Assistance, JOBS, and mandatory child care programs into a single, frozen block grant, with total funding set at FY 1994 levels.

- Require no state matching or maintenance of effort.

- Mandate tough work requirements while providing less money for work and child care.

- Make deep cuts in benefits to legal immigrants and SSI benefits.

On the positive side, the Finance bill is an improvement from the House version because it doesn't include all the conservative "strings" unconditionally restricting benefits to teen moms and certain others. The child support enforcement reforms are similar to those the Administration proposed. Child protective services are untouched and SSI childhood disability reforms are less draconian than in the House bill.

The Finance bill cuts funding nearly as deeply as the serious reductions in the House-passed bill. CBO's preliminary estimate is that the Finance proposal saves $26 billion over five years (and $42 billion over seven). The House bill's savings were more than double these amounts, but include food program cuts which have not yet been addressed by the Senate. The Senate's cuts of SSI to legal immigrants are deeper, but other cuts smaller. (A more complete summary of the Finance bill is attached.) This level of cuts could do real damage and it is unlikely that states will mount effective welfare-to-work programs at this diminished level of resources.

In other Senate developments, the Agriculture Committee is expected to mark up legislation covering the food programs next week for possible inclusion in the Finance bill when it goes to the Floor. Our efforts appear to be successful in stopping both the Food Stamp and nutrition block grants -- although a state option to block grant Food Stamps may be included. The Agriculture Committee will still need to find very sizable savings from the programs to achieve its targets. The Labor and Human Resources Committee approved reauthorization of the discretionary Child Care and Development Block Grant, with relatively little change from the current authorization; this may also be added on the Floor as an amendment to the welfare bill. In addition to the provisions concerning immigrants in the Finance bill, Senator Simpson's Judiciary subcommittee may soon mark up immigration legislation which affects benefits to immigrants. Again, this may be added on the Floor.

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A Democratic leadership group (Daschle, Breaux, and Mikulski) will announce its alternative this week. Their plan would repeal AFDC and replace it with a conditional entitlement based on work, with substantial funding (which is offset) for work and child care, and with two-years-and-work and five-years-and-out provisions (with certain hardship exemptions). The JOBS program would be replaced by a work block grant. Work participation rates would rise significantly by 2000, and states would receive bonus payments for reaching certain employment and duration-of-employment levels.

Democratic alternatives have no chance of passage. Indeed, it doesn't appear the Democratic alternatives will stop several Democratic Senators from supporting the Finance bill. Already, Senator Baucus voted for the bill in Committee.

Issues
The Administration has been working with Senate Democrats to improve the Senate bill in five critical areas:

1. Maintenance of Effort -- The Finance bill, like the House-passed legislation, does not require states to continue contributing their own funds to AFDC's successor block grant program. There is not even a requirement that they maintain their current level of effort. States can withdraw their own funds, cut benefits, purge large numbers of current recipients from the rolls, and avoid the investments needed to help people become self-sufficient. Under the current system, if poorer states such as Mississippi or Arkansas reduce spending by $1 they lose another $4 in federal funds. Even the wealthier states lose at least $1 for every $1 they cut. With the current block grant proposals, if a state cuts spending it loses no federal funds. And if one state starts imposing dramatic benefit cuts or short absolute time limits, neighboring states will naturally fear welfare migration and feel pressure to cut their own programs. Conversely, investments in one state designed to help recipients move permanently from welfare to work, such as training or child care, may seem particularly likely to attract recipients from elsewhere. We need to insist on a maintenance of current effort requirement to fight against the "race to the bottom" incentives in the Republican bills. An alternative would be inclusion of a mechanism in the bill that cuts federal payments if a state reduces its own spending below 1994 levels.

2. Counter-Cyclical Adjustment -- The Finance bill, again like the House-passed bill, freezes the level of the new block grant in future years. Should the country go into a recession -- or should some region suffer economic distress -- it offers little in the way of added assistance to meet increased need. The Finance bill creates a very modest one-time $1.7 billion "rainy day" revolving loan fund to help states during recessions but it requires that any funds distributed be repayable with interest. This is inadequate. There is no guarantee that a state's economy will have improved by the time it must repay its loan from the fund or that it will be able to borrow the amount required to maintain current benefits. Instead, the bill should make it possible for states to spend more in the event of economic downturn, population growth, or natural disaster. (Senators from states with growing populations, generally in the Sunbelt, are already asking for the bill to be amended to provide better protection for their allocations in the outyears.)

3. Resources and Incentives for Work -- The Finance bill expects states to meet ambitious work targets with considerably less money. By the year 2000, almost 2 million people would have to be working or training, unless states cut people off and reduce caseloads. CBO has estimated that only 6 States could meet these

requirements, because it would cost $10 billion a year by the year 2000 for every state to comply. (Chairman Packwood seemed surprised by CBO's report and may be willing to make some adjustments to the bill before taking it to the Floor.) If states were to choose to spend enough to meet the work requirements, a relatively small portion would be left to provide basic assistance to poor families and children. On the other hand, if states choose to emphasize providing benefits, they may simply accept the 5 percent block grant penalty for not meeting the work requirements and reduce their expenditures on work and training. By putting the money for benefits and services into one pot, both the Senate and the House bills would force states to make a decision about providing one at the expense of the other. It makes no sense to be asking millions more mothers to go to work while providing dramatically less child care than current law. Nearly two-thirds of welfare mothers have children under 6; 42% have children aged 2 years or less. We should insist on more support for work, training and child care and on splitting the block grant in two so that benefit funding is separate from funding for work and child care. We should reward states with performance bonuses for putting more people to work, instead of giving states incentives to cut people off. underline

4. Basic Protections for Children -- To protect children, we should avoid conservative mandates like a mandatory cut-off of unmarried mothers under 18 and their children and mandatory family caps, but the bill must also include provisions that will mitigate the race to the bottom. We should seek some exemptions from time limits for children whose parents are unable to work or find work. We should try to reduce cuts in programs for children. We should insist on basic protections for children.

5. Magnitude of Cuts -- As noted above, the Finance bill cuts almost as deeply as the House-passed bill. In recent discussions with the President, we have talked about savings from these programs at less than half the level of the Republican bills as being acceptable. The AFDC/JOBS cuts preclude the establishment of effective welfare-to-work programs. Children will be hurt. The immigrant cuts are immense and the SSI cuts for disabled children and the nutrition cuts go too far as well. The cuts in the Senate bill are too much to take out of poverty programs and we need to try to mitigate them.

Without these changes we harm children. The combination of dramatic federal cuts in many areas, the unworkable work requirements, and the lack of maintenance of effort provisions open the possibility of even larger cuts at the State level and a very harmful race to the bottom. And as budget caps get tighter and tighter, the pressure to cut Federal spending on the block grants further is likely to increase.

Purpose of Meeting

We recommend we arrange a meeting as soon as possible with appropriate senior Administration officials to discuss how best to achieve these changes in the Senate.

Important questions:

o <u>Do we explicitly threaten to veto the bill over any or all of these issues</u>?

A veto threat can send a clear message of what the Administration stands for -- and will not stand for -- in welfare policy. In the area of Food Stamps, the threat of a veto may have played an important role in blunting the momentum behind converting the program into a block grant.

On the other hand, Republicans on the Hill may well prefer to see the President veto a welfare reform bill and would like a road map about how to ensure one. Specific veto threats might make it less likely the legislation improves, and we could also receive criticism from more friendly sources should we choose to draw the veto line in a place different from where they would like.

If the decision is that a veto threat would be a useful tactic, we would still need to discuss the specifics of which provisions are named as unacceptable and what changes could be made to them to render them acceptable.

o <u>What specific changes would we advocate to the Senate bill</u>? What should Pres-Admin do to influence

Once the veto threat question is resolved, we still need to discuss how best to influence the Senate debate. What profile should the President and the Administration strike in that debate? What should we say about the Senate bill once it is passed?

Senate Finance Welfare Bill – Summary

AFDC and Work-Related Programs

Combined Block Grant—The bill approved by the Finance Committee combines AFDC, Emergency Assistance, JOBS, and three mandatory child care programs into a single, level-funded block grant of $16.8 billion (which represents the FY 1994 funding level for these programs). There is no annual inflation adjustment to the new "Temporary Family Assistance Grant," and the reduction over seven years for these programs is approximately $11 billion (CBO estimate). The Senate version lumped more programs into their Temporary Family Assistance Grant (AFDC, Emergency Assistance, JOBS and Child Care), while the House bill consolidated Child Care programs under a separate block grant.

Fewer Mandates—A positive aspect of the Senate bill is that it has fewer strings on State spending. Requirements that minor mothers live at home, the prohibition of benefits to children born on welfare, and restrictions on assistance to parents who fail to establish paternity are all dropped. Also, States can choose whether to pay cash assistance to non-citizen families who lack sponsors.

Work Programs

Participation Rates—By FY 2001, the Senate Finance bill requires half of single parents to participate in work/training activities, which the House bill does by FY 2003. The Senate bill, however, lets States exempt certain categories of beneficiaries (up to about 60% of the adult caseload) up through FY 1998, by allowing them to extend current law exemption categories. After FY 1998, no exemptions will be allowed and States face a very large increase in required participation. States not meeting the new rates may have their grant reduced by 5% the next fiscal year. The Senate bill requires that States guarantee child care for recipients who need care for children under age 6 to participate in JOBS activities but ends this guarantee for children 6 and over.

CBO analysis raised a major issue during the Senate Finance committee mark-up. CBO estimated States would need a total of $10 billion by FY 2000 (a full 60% of the block grant) to meet the set work targets, leaving far fewer funds to pay benefits. Further, CBO estimated that only 6 States would be able to meet the new requirements and that the remainder instead would opt for the 5% grant reduction penalty. Chairman Packwood was concerned by this finding, and feared the Administration would criticize the legislation as setting unrealistic work participation goals. He pledged to work with Senator Conrad to address CBO's findings, so it is possible that a Senate floor amendment somehow will alter the work portion of the block grant.

Child Protective Programs

Taking a stance that the Administration can support, the Senate Finance-passed bill leaves child protective programs unchanged. (The House bill combined, capped and cut Foster Care, Adoption Assistance and other mandatory child protective services by $2 billion over five years.)

Immigrant Assistance

The Senate Finance bill has three major immigrant provisions: (a) denial of SSI benefits for most immigrants; (b) deeming of sponsor's income for certain programs, notably Medicaid; (c) authority for states to deny immigrants cash assistance. While Senate Finance immigration provisions apply to fewer programs, cuts are harsher than comparable House action, which had comparatively more exemptions for SSI and Medicaid.

SSI Restrictions--The bill ends SSI benefits for most immigrants, except for: refugees and asylees (for five years); immigrants who have worked long enough to qualify for Social Security benefits; veterans and their spouses and children. The provision takes effect upon enactment for new applicants and on January 1, 1997 for those currently on the rolls. The somewhat less stringent House SSI provisions exempted more immigrants: those over 75; lawfully admitted permanent residents who cannot naturalize due to disability; refugees and veterans. CBO estimates the Senate SSI immigration provision would save about $11 billion over five years and about $17 billion over seven years. About 550,000 immigrants would be made ineligible for SSI benefits in the year 2000.

Medicaid Restrictions--The Senate Finance bill deems sponsor's income for programs authorized by the Social Security Act for five years *or* the length of a sponsor's affidavit of support, whichever is longer. The provision includes Medicaid, which currently lacks a deeming requirement. It is unclear how many immigrants would be affected and Medicaid savings estimates are not yet available.

Supplemental Security Income for Children

Cash Benefits--Under the Senate Finance Committee bill, benefits continue to be in the form of cash. (By contrast, the House bill limits cash benefits to those currently on the rolls and 20-50% of the most severely disabled applicants. Services funded by block grants to States replace 75% of the value of the former cash benefits.) Retaining only cash benefits is a stance the Administration can support.

Eligibility & Program Integrity--The Senate Finance bill establishes a new more stringent definition of childhood disability that effectively reverses the Supreme Court's 1990 *Zebley* decision by raising the level of severity of impairment(s) needed to qualify for SSI. The bill also requires periodic eligibility re-determinations to ensure that SSI is not erroneously paid to ineligible individuals. (The House bill has more severe eligibility restrictions.)

Cost Estimates--SSI children's provisions save about $7 billion over five years and about $11 billion over seven years, including the Medicaid and Food Stamp interactions. About 250,000 currently eligible children would be denied SSI in the year 2000.

The Administration could support tightened eligibility standards, but those in the Finance Committee bill are too stringent. We should take a position somewhere between Senator Moynihan's bill (which is as strict as the Finance Committee) and Senator Conrad's bill (which has limited reductions in the rolls).

Supplemental Security Income for Drug Addicts and Alcoholics

The Senate Finance Committee's bill, like the House bill, ends SSI eligibility for individuals whose drug addiction or alcoholism is a "contributing factor" to their disability. Under the Senate version, benefits would continue more than a year longer but the Senate bill does not reinvest part of the savings into drug treatment and research. Savings are about $2 billion over five years and about $3 billion over 7 years (CBO), which are very similar to House savings.

Child Support Enforcement

The Finance bill adopts many Administration child support enforcement proposals, as does the House-passed bill. While there are some minor changes we'd like to make, this is generally an area where we have achieved a great deal.

Draft

June 2, 1995

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: Carol Rasco, Alice Rivlin, Laura Tyson

SUBJECT: Welfare Reform -- Time to Decide

Summary

Senate Finance approved a welfare reform bill last week and we expect to see it on the Senate floor the week of June 12th unless delayed by fights over allocation formulas. The bill is similar to the one the House passed, although marginally better, and if the Administration -- and the President -- are going to influence the outcome we need to do it in the coming week or so. If the Senate endorses the key elements of the Finance bill there will be little opportunity to significantly change it before it comes to the President.

This memo describes the Finance bill and four big problems we think need to be addressed. We believe that senior officials should talk through the issues and strategy questions in the very near future. We've got to arrange a meeting with the President within the next few days to decide whether we should draw lines in the sand.

Finance Committee Bill

Closely akin to the House-passed legislation, the Finance bill would make dramatic cuts in many areas, impose unworkable work requirements, and end requirements that States match Federal spending. <u>If enacted, this legislation would represent the most serious cuts in programs designed to support families and children in our Nation's history</u>. And given the fact that Federal dollars are capped, it would only be the beginning -- things will get much worse in our next downturn.

Specifically, the Finane bill would:

- Combine the current AFDC, Emergency Assistance, JOBS, and mandatory child care programs into a single, frozen block grant, with total funding set at FY 1994 levels.

- Require no State matching or maintenance of effort.

- Limit benefits to five years (less at State option), with States allowed to exempt 10% of the caseload.

- Mandate tough -- and given the amount of funding, unrealistic -- work requirements.

- Make deep cuts in benefits to legal immigrants and SSI benefits.

On the positive side, the Finance bill is an improvement from the House version because it doesn't include all the conservative "strings" unconditionally restricting benefits to teen moms and certain others. The child support enforcement reforms are similar to those the Administration proposed. And, in other improvements over the House bill, child protective services are untouched and SSI childhood disability reforms are less draconian.

The Finance bill cuts funding nearly as deeply as the serious reductions in the House-passed bill. CBO's preliminary estimate is that the Finance proposal saves $26 billion over five years (and $42 billion over seven). The House bill's savings were more than double these amounts, but include food program cuts which have not yet been addressed by the Senate. The Senate's SSI cuts to legal immigrants are deeper, but other cuts smaller. (A more complete summary of the Finance bill is attached.) This level of cuts could do real damage and it is unlikely that States will mount effective welfare-to-work programs at this level of resources.

In other Senate committee action, the Agriculture Committee is scheduled to mark up legislation covering the food programs on June 7th for possible inclusion in the Finance bill when it goes to the Floor. Our efforts appear to be successful in stopping both the Food Stamp and nutrition block grants -- although a State option to block grant Food Stamps may be included. The Agriculture Committee will still need to find very sizable savings from the programs to achieve its targets. The Labor and Human Resources Committee approved reauthorization of the discretionary Child Care and Development Block Grant, with relatively little change from the current authorization; this may also be added on the Floor as an amendment to the welfare bill. In addition to action on assistance to immigrants by Senate Finance, legislation with implications for benefits to immigrants may be forthcoming from Senator Simpson's Judiciary subcommittee; this may also be added on the Floor.

Democrats' Alternatives

Democrats offered alternatives at the Finance Committee markup, all of which were defeated. It's not clear yet if they will be united for floor action, though efforts are being made. Senator Moynihan introduced a bill that makes a statement rather than serving as the possible basis for negotiations with Republicans; Moynihan would clearly prefer the President veto whatever legislation the Congress produces. Moynihan's bill would continue AFDC as an individual entitlement, expand work and training requirements, and increase funding for JOBS. It has an estimated <u>cost</u> (which is offset) of approximately $8 billion over five years.

A Democratic leadership group (Daschle, Breaux, and Mikulski) has announced plans to offer an alternative on the Senate Floor. They have not formally submitted legislation, but preliminary indications are that their plan would continue the AFDC entitlement but with two-years-and-work and five-years-and-out provisions (with certain hardship exemptions). The JOBS program would be replaced by a block grant. Work participation rates would rise significantly by 2000, and States would receive bonus payments for reaching certain employment and duration-of-employment levels. Democratic alternatives have no chance of passage. Indeed, it doesn't appear the Democratic alternatives will stop several Democratic Senators from supporting the Finance bill. Already, Senator Baucus voted for the bill in

Committee.

Issues

The central question in the debate this year has been whether to retain the entitlement to AFDC benefits. It appears this question has been settled on the Hill -- the entitlement is gone. There are certain protections that the entitlement provides that are lost under the capped, frozen block grant approach in the Finance bill. For one, the current program is based upon a Federal/State funding structure, which requires States to pay a portion of benefits to the impoverished. For another, the entitlement allows the program to expand as necessary to meet the increased need during times of economic difficulty. <u>If we are going to consider ending the individual entitlement, we must address these two cornerstone issues.</u> Specifically:

- <u>State Match Requirements</u> -- The Finance bill, like the House-passed legislation, does not require States to continue contributing their own funds to AFDC's successor block grant program. There is not even a requirement that they maintain their current level of effort. States can withdraw their own funds, purge large numbers of current recipients from the rolls or cut benefits and avoid the investments needed to help people become self-sufficient. <u>Ideally, we should retain the existing state match requirement to maintain incentives for States to provide support</u>. At a minimum, we need to insist on a maintenance of current effort requirement to fight against the "race to the bottom" incentives in the Republican bills. An alternative would be inclusion of a mechanism in the bill that cuts Federal payments if a State reduces its own spending below 1994 levels.

- <u>Counter-Cyclical Adjustment</u> -- The Finance bill, again like the House-passed bill, freezes the level of the new block grant in future years. Should the country go into a recession -- or should some region suffer economic distress -- it offers little in the way of added assistance to meet increased need. The Finance bill creates a very modest one-time $1.7 billion "rainy day" revolving loan fund to help States during recessions but it requires that any funds distributed be repayable with interest. This is inadequate. There is no guarantee that a State's economy will have improved by the time it must repay its loan from the fund or that it will be able to borrow the amount required to maintain current benefits. <u>The bill should provide some adjustment for increasing a State's allocation based upon an increase in the number of poor children or on unemployment or demographic factors</u>. (Senators from States with growing populations, generally in the Sunbelt, are already asking for the bill to be amended to provide better protection for their allocations in the outyears.)

Once these two issues are addressed, there are two additional issues with the Finance bill that also need to be addressed:

- <u>Size of Cuts</u> -- As noted above, the Finance bill cuts almost as deeply as the House-passed bill. In recent discussions with the President, we have talked about savings from these programs at less than half the level of the Republican bills as being acceptable. The AFDC/JOBS cuts preclude the establishment of effective welfare-to-work programs. The immigrant cuts are simply immense and the nutrition cuts go too far as well. The cuts in the Senate bill are too much to take out of poverty programs and we need to try to mitigate them.

- Workable Work Requirements -- The Finance bill has serious work requirements. Meeting them would be quite difficult even with considerably more resources. By the year 2000, almost 2 million people would have to be working or training, unless States cut people off and reduce caseloads. But there are less resources than under current law. CBO, in fact, estimated that to meet the requirements would take up such a substantial portion of the block grant funds that only 6 States could manage it. (Chairman Packwood seemed surprised by CBO's report and may be willing to make some adjustments to the bill before taking it to the Floor.) We should insist on more support for training and on splitting the block grant in two so that benefit funding is separate from services funding.

Without these changes, there is a very high likelihood that this bill will increase poverty and harm children. The combination of dramatic federal cuts in many areas, the unworkable work requirements, and the end of match rules open the possibility of even larger cuts at the State level and a very harmful race to the bottom. And as budget caps get tighter and tighter, the pressure to cut Federal spending on the block grants further is likely to increase.

There are other issues with the Senate bill but we believe they are not as important to fix. The four above are what we need to focus on. HHS may suggest some other issues such as insisting on protections for children in families effected by the time limits or increasing the percentage of the caseload States can exempt from the time limits. They may also suggest mandating a State provide equal treatment to children on a statewide basis or even an alternative funding structure that is based on a capped per case amount. We need to hear out the HHS concerns.

Conclusion

We recommend we arrange a meeting for as early this week as we can with appropriate senior Administration officials to talk through these issues and develop a strategy. Important questions:

- Is there agreement that the four issues we list are the most important?
- What specific changes would we advocate to the Senate bill?
- What's the best method for seeking them?
- Do we explicitly threaten to veto the bill over any or all of them?
- How do we best integrate our strategy with the Senate Democrats?

Senate Finance Welfare Bill -- Summary

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Combined Block Grant--The bill approved by the Finance Committee combines AFDC, Emergency Assistance, JOBS, and three mandatory child care programs into a single, level-funded block grant of $16.8 billion (which represents the FY 1994 funding level for these programs). There is no annual inflation adjustment to the new "Temporary Family Assistance Grant," and the reduction over seven years for these programs is approximately $11 billion (CBO estimate). The Senate version lumped more programs into their Temporary Family Assistance Grant (AFDC, Emergency Assistance, JOBS and Child Care), while the House bill consolidated Child Care programs under a separate block grant.

Fewer Mandates--A positive aspect of the Senate bill is that it has fewer strings on State spending. Requirements that minor mothers live at home, the prohibition of benefits to children born on welfare, and restrictions on assistance to parents who fail to establish paternity are all dropped. Also, States can choose whether to pay cash assistance to non-citizen families who lack sponsors.

Work Programs

Participation Rates--By FY 2001, the Senate Finance bill requires half of single parents to participate in work/training activities, which the House bill does by FY 2003. The Senate bill, however, lets States exempt certain categories of beneficiaries (up to about 60% of the adult caseload) up through FY 1998, by allowing them to extend current law exemption categories. After FY 1998, no exemptions will be allowed and States face a very large increase in required participation. States not meeting the new rates may have their grant reduced by 5% the next fiscal year. The Senate bill requires that States guarantee child care for recipients who need care for children under age 6 to participate in JOBS activities but ends this guarantee for children 6 and over.

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Taking a stance that the Administration can support, the Senate Finance-passed bill leaves child protective programs unchanged. (The House bill combined, capped and cut Foster Care, Adoption Assistance and other mandatory child protective services by $2 billion over five years.)

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Committee bill are too stringent. We should take a position somewhere between Senator Moynihan's bill (which is as strict as the Finance Committee) and Senator Conrad's bill (which has limited reductions in the rolls).

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Child Support Enforcement

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WELFARE REFORM

Senate Prospects

The Senate Republicans increasingly support block grants for the AFDC, Child Care, and possibly Food Stamp programs with major flexibility for States and few of the mandates included in the House- passed bill. Governors Thompson and Engler actively promote such a proposal. These block grants do not require a State match, eliminate the AFDC entitlement and provide little incentive for States to invest in services for the poor. In addition, the final outcome of the Senate is likely to result in significant savings, probably close to the House total of $65 billion over 5 years. Mark-up may being in mid-May

Senate Democrats such as Daschle and Breaux have begun working on an alternative. It would continue the individual entitlement with a strong focus on work and training activities. The AFDC-replacement would remain an open-ended entitlement with State match requirements, but it would grant States new and potentially costly flexibility. Jobs, training and child care programs would be provided, with bonus funds allocated on a performance basis.

Strategy

If the Administration is to significantly influence the most sweeping changes in welfare in decades, we must quickly develop a policy position from which to negotiate. If we are not involved in these discussions, our opportunity to influence the bill diminishes markedly. The Administration needs to focus on and to articulate a few key principles in negotiating with the Senate:

Preserve a Uniform Safety Net of Protection. It is essential that a basic federal benefit continue. At a minimum, the food stamps program should continue in its current form to help offset reductions in other benefits. It is questionable whether AFDC can continue as an individual entitlement.

Counter-Cyclical Response. It's simple -- when the economy gets worse, more people need assistance. Any welfare block grant must take into account changes in the economy.

State Flexibility Coupled with Continued State Match. Without assurances that States will continue to contribute, the cuts in benefits and services could be even more severe than they originally appear to be.

Work. As the President has made clear, the central point of welfare reform should be to make it truly a system to transition people from welfare to work. We need incentives for states to invest in these activites.

Deficit Reduction. We can reform these programs and achieve significant budget savings. Any alternative could save about $40 billion over five years.

Our Next Steps

To influence the debate, we suggest senior HHS, USDA and WH officials should meet to (1) finalize the key principles for a compromise and (2) to develop a plan for dealing with the Senate Republicans.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

THE DIRECTOR

April 28, 1995

Bruce -
Alice asked me
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on bb principles.
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MEMORANDUM

TO: Leon Panetta

FROM: Alice Rivlin A.R.

RE: Welfare Reform -- Senate Meetings

Welfare reform is likely to come up during the President's weekend discussions with Senate Democrats. I wanted to give you some background and make a few suggestions about it.

Senate Republicans are increasingly supportive of eliminating the AFDC program and establishing a capped cash assistance block grant in its place. This would end the individual entitlement to AFDC. The block grant would have few of the nasty mandates contained in the House-passed welfare bill but also would not have a state match requirement. The Republicans may also want to convert food stamps into a block grant -- a step the House didn't take -- but this is more up in the air at the moment. Senator Packwood endorsed a food stamps block grant this week.

Senate Democrats, lead by Daschle and Breaux, have been working on an alternative that would maintain the individual entitlement to AFDC while giving States much more flexibility than they currently have. Their draft proposal would, like our own proposal, focus on work and training for welfare recipients and includes some interesting State incentive features. It also continues State matching requirements. Unfortunately, it appears clear that this alternative has no chance of passage and shows little signs of generating bipartisan effort.

The Senate Republicans are quickly coming together on their approach. The White House needs to have a negotiating strategy on welfare that allows us to engage Senate Democrats and, especially, Senate Republicans. Tomorrow is an opportunity for the President to discuss the issue with Democrats so that we can move forward as soon as possible. The Senate Republicans are coming together on their approach.

It seems important to me that the President take advantage of this weekend's discussions to send some very important signals:

Support the emerging Senate Democratic proposal. The best way to get positive changes in the Senate Republican bill would be for Democrats to come together behind a Democratic alternative.

We need a safety net. Food stamps is the best universal program to assist the poor. We should make clear that a block grant is unacceptable for food stamps. The AFDC block grant in some form -- while unpalatable -- may be inevitable. If so, then we need to find ways to improve the Republican proposal.

Protection during hard times. The Republican block grant proposals threaten the ability of our poverty programs to meet the increase in need during economic downturns. We need to maintain the "automatic stabilizer" nature of the individual entitlement or, if a block grant is inevitable, work to include a mechanism to increase funding during hard times.

We support much greater flexibility for States and a continued State matching requirement. We need to give the States the freedom to innovate in moving people from welfare to work. We also need to ensure that States continue to contribute to programs that support those in poverty.

Focus on work. Any welfare reform has to move people to work, not simply cut them off. We applaud the efforts of Senate Democrats to push for positive incentives for States to transition recipients to the workforce.

Budgetary savings. In the current environment, welfare reform legislation will have to include significant budgetary savings to pass the Congress. The House-passed bill has $65 billion in cuts (over 5 years); the Senate Republicans are likely to support a lower -- but only slightly -- level of savings. While these represent deeper cuts than are acceptable, we need to signal our acceptance of the need to find some savings in these programs.