

WR TX
cc: Bruce R
Cynthia
Diana
return

Citizen Action

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April 30, 1997

The Honorable William J. Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear President Clinton:

On behalf of Citizen Action, the nation's largest consumer and environmental watchdog organization, and Texas Citizen Action, we want to express our strong opposition to proposals to privatize the administration of Medicaid, Food Stamps and other public services. Therefore, we ask that you reject the pending request by the state of Texas to implement such a program.

Citizen Action believes that public services should be administered through publicly-accountable agencies. We are greatly concerned that determinations involving the health and well-being of children and families should not be turned over to private contractors, where concerns about profits may outweigh concerns about people's lives. Privatization would make it extremely difficult to guarantee adequate staff training, oversight, and public input. It would increase the difficulties already facing those most vulnerable among us and those families struggling to cope with temporary economic dislocations.

While we agree with the need to make public services as efficient and effective as possible, there is no evidence that privatization will lead to either goal. Instead, there is ample evidence pointing to problems with private contracting for public services, including duplication, cost overruns, inadequate investment in equipment and personnel, and fraud and abuse. Privatization will likely lead to new and greater problems. These problems, however, will be harder to address because private contractors are not subject to the same accountability requirements as public agencies and because employees of private contractors do not have the same protections as public employees. The Texas privatization scheme, which remains ill-defined and has not even been subject to public discussion within the state, is simply bad public policy.

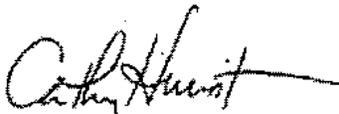
The Honorable William J. Clinton

April 30, 1997

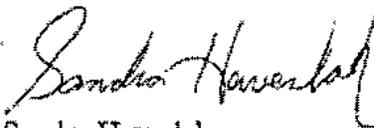
Page 2

Both the federal and state governments are responsible for making the wisest use of taxpayer dollars and for properly implementing public programs. Neither the state of Texas nor any other state should be allowed to shirk that responsibility or turn it over to private contractors. Again, we strongly urge you to protect the public interest by rejecting privatization proposals.

Sincerely,



Cathy L. Hurwit
Deputy Director
Citizen Action



Sandra Haverlah
Executive Director
Texas Citizen Action

cc: The Honorable Donna Shalala
The Honorable Dan Glickman
John Podesta

**Communications
Workers of America
AFL-CIO, CLC**

501 Third Street, N.W.
Washington, D.C. 20001-2797
202/434-1110 Fax 202/434-1139

Morton Bahr
President

VIA FAX

April 7, 1997

Mr. Erskine Bowles, Chief of Staff
The White House
Washington, D.C. 20500

Dear Mr. Bowles:

As the Administration continues its review of the Texas TIES program, I thought you would be interested in the results of a poll conducted among Texas eligible voters last week by Lake Research Inc. A summary is attached.

The poll found that 84 percent of Texans believe that local professionally trained people--not private contractors--should run Texas' human services program and that 70 percent of Texans believe that "opening up Texas' human services system to large corporations invites corruption, bribery...and will cost Texas taxpayers more money in the end."

The people of Texas understand that human service programs should be administered by trained state employees who are accountable to taxpayers, not to shareholders.

Sincerely,



Morton Bahr
President

cc: John Podesta
Bruce Reed
Donna Shalala
Daniel Glickman
Gerry Shea

Attachment

Lake Sosin Snell & Associates

NEW TEXAS POLL FINDS SIGNIFICANT DOUBTS ABOUT PRIVATIZATION

A new survey of 575 likely Texas voters by Lake Sosin Snell & Associates reveals that, contrary to conventional wisdom, Texans oppose privatization of state human services programs after hearing equal arguments from both proponents and opponents.

- All voters polled heard a message in favor of privatization focusing on improving efficiency and cutting waste. After an opposition message focusing on corporate profits at the expense of Texas jobs and services for Texas families, seniors and children, voters oppose privatization by ten percentage points (50% oppose, 40% favor).
- All the messages tested against privatization are surprisingly strong among Texans.
 - In particular, 84% find it a convincing reason to oppose privatization that people in Texas should run the human services system in Texas, and seventeen thousand Texans would lose their jobs under this plan (57% very convincing).
 - Seventy-five percent find it a convincing reason to oppose privatization that large corporations would have access to personal, confidential information about millions of Texans -- and one of the corporations that wants to run Texas' human services system has already been fined in Florida for similar abuse (52% very convincing).
 - Seventy percent find it a convincing reason to oppose privatization that opening up the system to private interests invites corruption, high-priced lobbyists, bribery and ridiculous campaign contributions to get contracts (49% very convincing).
 - Sixty-six percent find it a convincing reason to oppose privatization that defense contractors who want to run Texas' human services system are known for waste, fraud and mismanagement -- these are the same people who charged the government hundreds of dollars for a hammer (47% very convincing).

Methodology: This analysis is based on a Texas statewide random-digit-dial (RDD) survey of 575 adult Texans likely to vote in the 1998 elections, designed and administered by Lake Sosin Snell & Associates for the Communications Workers of America. The poll was conducted between April 1 and 3, 1997. The margin of error for the survey is +/- 4.1%.

ADA

Americans for Democratic Action, Inc.

1625 K Street, N.W. • Suite 210 • Washington, D.C. 20006 • Phone (202) 785-5980 • Fax (202) 785-5969 •
e-mail: adaaction@ix.netcom.com

March 24, 1997

Mr. Bruce Reed
Domestic Policy Council
The White House
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500

Dear Bruce:

ADA is deeply concerned about Texas' proposal to turn operation of the state's Medicaid, Food Stamp, TANF, and other social safety net programs over to a private corporation. At a time of massive restructuring of these programs, turning the operation of these programs over to private for-profit corporations could result in great harm to vulnerable low-income individuals and families. We, therefore, strongly urge the Administration to deny the Texas request.

With good reason, Medicaid and Food Stamp regulations require that activities that require discretionary judgement, such as eligibility determination, appeals, and fraud investigations, must be handled by merit system civil service employees. Merit system employees are accountable to the public, whereas employees of private corporations are ultimately accountable to shareholders. Merit system employees' civil service status provides them some measure of independence to make difficult judgements without fear of capricious or unjust retaliation. The same cannot be said of the employees of a private company who work "at will" for employers whose bottom line is profit.

Eligibility specialists and intake clerks play important roles in helping clients -- many of whom may be poorly educated and vulnerable and may not speak English -- to understand the documents used to qualify for public benefits. Their myriad judgements help to ensure that clients receive the benefits to which they are entitled. These interviews provide the record upon which appeals are based and fraud investigations proceed.

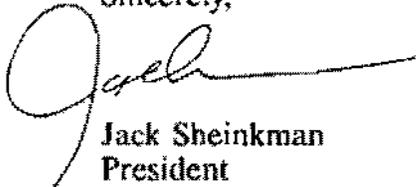
ADA also is concerned about client confidentiality should private corporations take over the operation of TANF, Medicaid and Food Stamp programs. Eligibility specialists consult Social Security, child support enforcement, and other sensitive public data bases to verify client information. How will client privacy be assured absent public administration?

Finally, some report that Texas claims it will save as much as 40 per cent through its automated enrollment and privatization project. We ask where the cost savings will be found? One possibility is that the private companies intend to close welfare offices and

substitute computer terminals for human interaction. How will the affected client population successfully maneuver its way through a kiosk-based system to determine eligibility; moreover, how will such a system protect taxpayers against fraudulent claims?

The Administration's decision on the Texas proposal have national ramifications for the success of welfare reform. But, it also has enormous implications for how we ensure that public and private profit making functions not be improperly blurred. We strongly urge you to send a clear message to Texas that the gatekeeper function for Medicaid and Food Stamps is an inherently public function.

Sincerely,

A handwritten signature in black ink, appearing to read "Jack Sheinkman", with a long horizontal flourish extending to the right.

Jack Sheinkman
President

WK
Tues
1/4/95

(Handwritten signature)

**TIES ISSUES: MERIT SYSTEM REQUIREMENTS
AND DELEGATION OF AUTHORITY**

In the course of Texas' TIES discussions with DHHS and USDA, federal agency staff have raised two issues:

- Are the merit system requirements of the Food Stamp Act and the Social Security Act applicable to a privatized eligibility work force?
- Do the merit system provisions prohibit the state from delegating eligibility determination functions to a contractor?

Texas has taken the position in those discussions that:

- (1) under the TIES proposal, the relevant Texas state agencies retain all responsibilities for administration that are associated with their designations as single state agencies;
- (2) the state is obligated to ensure that state-administered portions of TIES programs will use a merit system of personnel administration. That merit system, however, is not applicable to any private work force with which the state contracts to administer other parts of the eligibility determination process;
- (3) nothing in federal statute or regulation prohibits the state from delegating certain eligibility determination functions to a contractor, including some certification-related functions under the Food Stamp program.

Texas does not argue that, in order to comply with federal requirements, only the individual "pushing the button" to certify eligibility must be a public, merit system-protected employee. But the federal government has no basis for arguing the other extreme, namely that all eligibility functions beyond data intake must be performed by public employees.

Texas has asked the federal agencies repeatedly to identify where they draw the line between public and private employees in the eligibility certification process. Federal agency staff to date has refused to take a position on that issue.

The issue of whether private employees can certify client eligibility is a red herring for the following reasons:

- (A) The eligibility determination process and automation system are rules-based which minimizes the possibility of public or private employees exercising unbridled discretion.

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HHS RECEIPTION

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- (A) The state at all times will retain responsibility for the promulgation of program rules and policy. In other words, the objective criteria used by staff and systems in determining client eligibility in all instances will be defined by public employees.
- (C) The state will retain final approval and disapproval authority over all eligibility determinations and the state, not a private contractor, will be responsible for assuring the due process rights of all applicants whose eligibility is denied.
- (D) The state will retain control over all eligibility determination functions by holding the contractor to strict performance standards through stringent oversight of contractor operations.
- (E) While holding the contractor strictly responsible for results, the state will remain the party that is accountable to the federal government for compliance with all federal requirements.

CHARLES W. STENHOLM

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Congress of the United States
House of Representatives
Washington, DC 20515

February 24, 1997

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RANKING MEMBER

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The Honorable Franklin Raines
Director
Office of Management and Budget
Old Executive Office Building
Washington, D.C. 20500

Dear Frank:

I am writing on behalf of my constituents in the 17th District and the State of Texas to request your prompt attention to Texas' request for approval of the Request for Offers for the Texas Integrated Enrollment System (TIES). This request has been pending for several months and has reached a critical point for a decision.

When the welfare reform debate began in earnest in 1995, I set up welfare task forces in my district and asked them to put together their recommendations on how to structure the welfare delivery system. The number one recommendation of the task force was that the application process be streamlined and simplified across various means-tested programs. The task force concluded that streamlining the application process would provide better service to needy individuals and would use scarce resources more efficiently. I was therefore pleased that the Texas legislature directed the Texas Human Services Commission to develop an integrated enrollment system as part of the state's welfare reform plan. I have been even more pleased that the Commission has taken this direction very seriously and developed an integrated enrollment proposal very consistent with the goals outlined by the welfare task force I established.

I am enclosing a copy of a letter that Dr. Mike McKinney, Commissioner of the Texas Human Services Commission, sent to Secretary Donna Shalala on February 19 informing the Department of Health and Human Services of his intention to proceed with the release of the TIES Request for Offers. The Commission is proceeding under the authority of HHS regulations that deem requests to be approved if the Department does not provide the state with approval, disapproval or a written request for more information within 60 days.

While I share Dr. McKinney's disappointment that the Commission has found it necessary to proceed without formal approval from HHS or USDA, I believe that the Commission has been extremely patient throughout the approval process and has ample legal and substantive justification to proceed with the program at this point. The Texas Human Services Commission has been developing the TIES at the direction of the Texas legislature since June of 1995. The initial RFO was presented to HHS and USDA in June of 1996. Since that time, state officials have worked extensively with the administration to refine and improve the proposal and have responded to several requests for information. Further delay risks jeopardizing the

success of the Texas welfare reform initiative, which anticipated implementation of the TIES. The timing is especially critical because the Texas legislature will only be in session for a few months. Dr. McKinney and his staff need to begin to work with the legislature very soon if any changes need to be made to the TIES that need legislative approval, or if the welfare reform legislation needs to be modified to adjust to the absence of the TIES.

I have worked with Dr. McKinney in seeking federal approval of the TIES and several other issues, most notably approval of a waiver for the Texas welfare reform plan in 1995. In all of these instances, I have found Dr. McKinney to be extremely reasonable and willing to make accommodations to address administration concerns. Dr. McKinney remains willing to work with the administration to resolve any problems preventing federal approval of the TIES. I am willing to work with you, Dr. McKinney, Governor Bush and other state and administration officials to foster a constructive dialogue that can lead to prompt resolution of this matter. If the administration determines that legislation is necessary to allow approval of the TIES, I will work in my capacity as Ranking Member of the House Committee on Agriculture to pursue such legislation, and believe that there would be bipartisan support for such an effort. I hope that the cooperation between the State of Texas, my office and the administration that led to the approval of the Texas welfare waiver under terms that were acceptable to all parties can serve as a model for dealing with this issue.

Thank you in advance for your attention to this matter. I look forward to working with both the State of Texas and the Administration to see that we continue to make progress toward final implementation of the Texas Integrated Enrollment System. Please feel free to contact me if I can be of assistance. With kind regards, I remain

Sincerely yours,



Charles W. Stenholm
Member of Congress

CWS:esl

Enclosure

cc: Governor George Bush
Lieutenant Governor Bob Bullock
Dr. Mike McKinney
Bruce Reed ✓
Ken Apfel



TEXAS HEALTH AND HUMAN SERVICES COMMISSION

MICHAEL D. MCKINNEY, M. D.
COMMISSIONER

February 19, 1997

Donna E. Shalala, Ph.D.
Secretary
United States Department of Health & Human Services
200 Independence Avenue, S.W.
Washington, D. C. 20201

Re: Texas Integrated Enrollment Services Project

Dear Secretary Shalala:

The purpose of this letter is to respond to correspondence dated January 31, 1997, from Mr. Mark Ragan, Director of the Office of State Systems, Administration for Children and Families, to my office regarding the review of the State of Texas' request for approval of the Request for Offers for the Texas Integrated Enrollment Services [TIES] project. [Copy attached.] Mr. Ragan advises that the ACF and HCFA continue to review the RFO and that a final decision cannot be given at this time. He states that discussions were being conducted at the highest levels within DHHS.

It is therefore appropriate to direct my concerns about the approval process to your office and to inform you of my office's plans, based on our understanding of applicable federal regulations, to release the TIES Request for Offers [RFO].

As you may know, the State of Texas, through this agency and the State Council on Competitive Government, has embarked on a challenging initiative to integrate the eligibility determination and client enrollment functions of several public assistance programs, including Medicaid and cash assistance under the Temporary Assistance to Needy Families program. The State's overarching goal is to improve service to recipients of public assistance by maximizing efficiencies and taking advantage of technical and business innovations available through the marketplace. The State also has selected this project as a means to encourage public-private competition and, in the process, stimulate the formation of public-private partnerships.

The Texas Legislature directed this agency and the Council to determine the potential benefits of contracting out these functions and, if this option was deemed feasible, authorized this agency to contract out those functions. Following an extensive study of the programs to be included in the project and an assessment by the Council, the Council determined that there was a compelling business case to support the contracting out of eligibility determination and enrollment functions. The Council directed this agency to prepare and conduct a competitive procurement to implement the Council's findings.

We first presented the RFO for an integrated enrollment service for required prior approval to your agency and the Department of Agriculture in June of 1996. Following an extensive review and

Secretary Donna E. Shalala

February 19, 1997

Page 2

comment by the federal agencies, we met with agency representatives in Austin on July 23, 24, and 25. Based on the input and direction we received from federal staff and others, we resubmitted the RFO and Planning APD for the project for prior federal approval on October 17, 1996. We received acknowledgment in a letter from Mr. Joseph F. Costa, Director of the State Systems Policy Staff for ACF, dated October 24, 1997.

We met once again with federal staff at the offices of the Food and Consumer Service in Alexandria on November 15, 1996, where we received additional comments and direction. We received requests for clarification from DHHS and USDA on November 19th. We submitted information in response to these requests on November 27 and December 13, 1996. Mr. Ragan's letter is the most recent correspondence we have received from the Department on this matter.

Although your agency has indicated more time is needed to make a final decision on our request for approval, we believe a DHHS regulation adopted last year authorizes the State of Texas to proceed with the implementation of the TIES on a provisional basis without the Department's prior approval. The regulation, codified at 45 C.F.R. section 95.611(d), promises prompt agency action on states' requests for prior approval of Planning APDs, Implementation APDs, RFPs, contracts, and certain contract amendments. Under the new regulation, a state's request is automatically deemed to have provisionally met the prior approval conditions of the regulations if DHHS has not, within 60 days following the date of the its letter acknowledging receipt of the state's request, provided the state written approval, disapproval, or a request for information.

Based on our understanding of the purpose and intent of the regulation, we believe that, due to the delay in federal action, the State has provisionally met the prior approval conditions of DHHS and USDA regulations.

In the notice of proposed rule making that appeared in the Federal Register, the Department explained that the "prompt action" regulation was proposed in the interest of increasing efficiency and reducing federally-imposed burdens on the states. The Department's avowed intention was to help states contain costs by minimizing the delay in granting required approvals. The Department acknowledged that states which are confident their proposed ADP projects satisfy federal requirements should not be penalized by excessive delay in the Department's approval. See 60 Fed. Reg. 37859 (July 24, 1995). On final adoption of the regulation, the Department responded to a comment that the regulation may be employed to delay the approval of state requests by offering explicit assurance that "this will not happen." 61 Fed. Reg. 39894, 39896 (July 31, 1996).

Unfortunately, it appears that this is precisely what has occurred with the State's request for approval of the TIES RFO. Our concern is that the current and -- if we interpret your agency's actions correctly -- potentially interminable delay in the approval of the TIES RFO violates the spirit, if not the letter, of the prompt action regulation. Certain that this is not the Department's intention, we believe it is reasonable to interpret the regulation to authorize the State of Texas to proceed with the TIES project under the provisional approval criteria of the regulation.

The regulation is silent as to the Department's duty and a state's reasonable expectations in cases where federal approval takes longer than 60 days. It seems clear, though, that the policy basis for the regulation was to bring closure to a process that unfairly delays and adds costs to proposed state action. The Department's actions imply, however, that it interprets the regulation to permit an extension of the period of review for an additional 60 days upon delivery of written notice to the state. This application is plainly at odds with the Department's justification for the rule.

Secretary Donna E. Shalala
February 19, 1997
Page 3

If the regulation is to apply in this instance, we think the more reasonable application would be to permit the Department to receive an additional 60 days to review a state request for approval when it either (1) requests additional information from the state or (2) receives information from the state in response to such a request. Under this interpretation, the Department would be required, within the 60 days following the request or receipt of information, to provide the state a written approval, disapproval, or request for additional information. Mr. Ragan's letter of January 31, then, would not extend the Department's review period because it did not provide approval, disapproval, or request additional information from the State.

Accordingly, under this reading of the prompt review regulation, the State of Texas was deemed to have provisionally met the prior approval conditions of regulations, at the earliest, on January 18, 1997 (60 calendar days following November 19, 1996, the date of the Department's request for more information) or February 11, 1997, at the latest (60 days following the State's December 13, 1996, submission in response to the November 19 request).

Based on this understanding of the regulation, my staff is proceeding with final preparation of the TIES RFO for formal release to the marketplace. If we are incorrect in our reading of the regulations, we believe it is the Department's responsibility to so advise and provide the State of Texas information necessary to fulfill the prior approval requirement. If we receive no direction from the Department by February 28, 1997, we will assume you concur in our reading of the regulations and we will formally issue the TIES RFO.

We have conducted the dialog with our federal partners in the utmost good faith and in the spirit of partnership. We think this commitment is critical to the ultimate success of the TIES project. Almost without exception, our federal counterparts have been extremely helpful in providing my staff useful advice and direction. Their input has been indispensable to ensuring the success of the project. Yet, despite these efforts and repeated assurances of a prompt federal decision, we appear no closer to approval than we were nearly nine months ago when we first approached our federal partners. To my knowledge, we have responded (or have attempted to respond) to every request for information and clarification from federal oversight agencies. We are unaware of any reason why the RFO cannot be issued at this time. Mr. Ragan's letter discloses no lingering or insurmountable issues regarding the project. Thus, we are left to speculate whether the delay in approval is for reasons other than the adequacy of the RFO and compliance with federal requirements.

I agree with Mr. Ragan that a project as large and ambitious as TIES deserves careful consideration, and we are committed, as your staff are, to ensuring that the needs of our clients and taxpayers' interests are protected. However, each month of delay in the release of the RFO costs the taxpayers of Texas. To date, the State of Texas has invested approximately \$1.8 million in the planning and development of the TIES project. Additional expenditures will no doubt be necessary to accommodate further federal delay.

More important, we conservatively estimate that each month of delay in the statewide implementation of integrated enrollment in Texas costs the taxpayers of this state at least \$10,000,000. The Texas Legislature, in authorizing this project in 1995, instructed my office to direct the savings generated by integrated enrollment to fund additional health and human services programs. I estimate that the annual savings in administrative costs alone generated by TIES could provide health care coverage an additional 150,000 needy Texas children. Thus, the inability of the federal authorities to fulfill their

Secretary Donna E. Shalala

February 19, 1997

Page 4

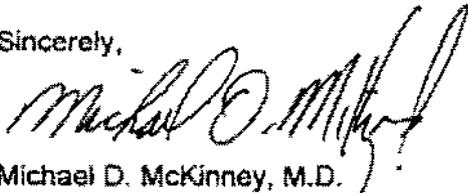
responsibilities frustrates the intent of the Texas Legislature and is borne directly by our agencies' clients and the citizens of Texas.

I regret that this action has become necessary, but it is my duty to ensure the intent of the Texas Legislature is implemented and the interests of the people of Texas are advanced. We firmly believe that the TIES project is the right thing for recipients of public assistance and the State of Texas, and it is long overdue. I understand our efforts have been criticized by people whose interests may be to preserve the status quo. Unlike your staff, these persons either have not taken the time to consult with us, have not given us the courtesy of an open and honest discussion of the issues, or have chosen to ignore the clear commitments we have made to improve service to our clients and give value to the taxpayers.

We view the TIES project as an opportunity to realize President Clinton's vision of a nation where the important and critical decisions of government are made closest to the people whose lives they affect. We also share his belief that restoring to the states this responsibility and authority is critical to reforming the welfare system and meeting the challenges of the next century. And we agree with your recent remarks that "when we target our resources responsibly and innovatively, when we team up with our private and public partners, and when we act as tough, savvy managers, the federal government can help lead the way in creating a stronger and healthier nation - a nation capable of meeting challenges both old and new." With your help, the State of Texas can follow a similar path.

Consequently, I respectfully ask for your assistance in resolving the apparent impasse over the approval of the Texas Integrated Enrollment Services Request for Offers. As always, we are prepared to supply any information you or your staff may need to reach a prompt and correct decision.

Sincerely,



Michael D. McKinney, M.D.
Commissioner

Attachment

c: Governor George W. Bush
Lieutenant Governor Bob Bullock
Speaker Pete Laney
Comptroller John Sharp

Dallas Morning News
May 23, 1995

WR-Texas

Conferees reach deal on welfare

Bush seeks tougher bill, may ask U.S. for help

By Sylvia Moreno
Staff Writer of The Dallas Morning News

AUSTIN — State negotiators approved a compromise welfare reform bill Monday that Gov. George W. Bush said fell short of his goal of discouraging Texans from having babies while receiving benefits and viewing public assistance as a ready fallback.

Mr. Bush would not say whether

LEGISLATURE '95

■ House rejects hate-crimes bill BA

■ More on Legislature SA, 20A

he would veto the bill, if it receives the final approval of both houses of the Legislature and is sent to him for his signature.

But he said that he was disappointed with the compromise and that he later might petition the federal government for permission to impose more stringent rules on welfare recipients. The governor could seek waivers from federal law on issues not addressed in state law.

"Trying to change people's behavior is part of what I campaigned on. I believe that's what Texans want," Mr. Bush said. "I will have to view the entire bill to determine whether or not this weakens the bill to the point where it becomes unacceptable. But I'm disappointed with what happened."

Among proposals adopted by conferees were limits on the time that some welfare benefits could be received; certain "responsibility" requirements for recipients; a measure prohibiting people who get off welfare from reapplying for three years; and job-training or educational requirements for some recipients.

But the conferees also rejected a proposed family cap backed by Mr.

Please see BUSH on Page 8A.

Dallas Morning News
May 23, 1995

Bush says compromise welfare bill falls short of goals

Continued from Page 1A.
Bush that would have limited the number of children a woman on welfare could receive benefits for. The three-year ban on regular visits for benefits was adopted after the conference rejected a five-year ban that Mr. Bush had supported.

"If we're going to change Texas' welfare system," Mr. Bush said, "we must address those aspects of the welfare system that have occurred aged dependency."

Rep. Harvey Hildartman, R-Kerrville, the House co-author of the welfare reform bill, also said he could not support a compromise measure that was not together on the "Tennessee" periods imposed on welfare recipients — the period in which they're banned from reapplying for benefits.

The House, as did Mr. Bush, was pushing a proposal to ban Texans from returning to welfare unless they left the system. The Senate approved a

five-year ban. The compromise bill calls for a three-year ban.

"For me to give my full support and the governor to give his full support, we have to know that three years is five years," said Mr. Hildartman.

The compromise legislation was approved by a conference committee of the House and the House members who had been meeting since last week to work out differences between the welfare reform bills passed last month by each chamber.

The agreement, however, had not yet been signed by conferees by late Monday. Mr. Hildartman said that prior to the signing, he would ask the conferees to reconsider the "Tennessee" rule for recipients.

The family cap that was proposed — and rejected by the conferees — would have allowed a woman who had one child and who had another child while on welfare to receive each benefit from the state only if she helped establish the parent-

ship of the child and the father was unable to support the baby. There would be no cash benefits for any subsequent children.

During the gubernatorial campaign last fall, Mr. Bush said he supported a sweeping reform of the state's welfare system. Such reforms included imposing a family cap on mothers receiving welfare, limiting the amount of time Texans could receive welfare, imposing a lifetime ban on returning to welfare once recipients left the program, and creating down on deadbeat fathers who don't pay child support.

Currently, Texas pays the third largest AFDC grants in the country. Advocates for the poor had protested several aspects of the reform bill, including the family cap, so measures that would punish children and not necessarily the adults.

The conferees voted for a family cap under the Aid to Families With Dependent Children.

The main federal-state cash assistance program, to one to three years depending on the recipient's recent work experience and education. A recipient also would be banned from reapplying for welfare for three years after leaving the system.

Require welfare clients to sign a responsibility agreement — including promising to remain drug-free and to maintain their children, keep them in school and help establish their parentality — in order to get benefits.

Require welfare recipients with children older than 4 to participate in the job training program and/or attend educational or literacy programs.

Allow judges to order alimony for spouses who would remain unemployed and probable candidates for welfare from the community property was divided in a divorce. To be eligible for alimony, a person would have had to be married at least 10 years or have been the victim of domestic violence during the marriage.

Put state licenses of parents who are delinquent in child-support payments and whose children are receiving AFDC.

Convoke more than 20 state job-training programs into a new agency designed to better coordinate Texas' effort to train welfare clients and other unemployed residents so they could reenter the workforce.

More than 6,000 employees, six state agencies and an estimated \$25 million in job-training programs would be affected in the immediate term.

Besides rejecting the family cap and the lifetime ban on returning to welfare, the conferees threw out a provision in the responsibility agreement that would have allowed welfare case workers to encourage public assistance recipients to take their children to church and would have required teenage parents receiving AFDC for their babies to reside with their parents.

cc Bruce Reed

Jan Klein

Interesting issue,
FYI.

Diana

INITIAL ISSUES

TEXAS: "PROMOTING CHILD HEALTH
IN TEXAS" DEMONSTRATION

- o In this six year, Statewide demonstration, Texas would amend the Aid to Families with Dependent Children (AFDC) program by requiring that all pre-school age children within a household be immunized as a condition of receiving AFDC. The demonstration would impose a \$25.00 sanction per child, per household at each six month periodic review for each pre-school child not immunized on the recommended schedule. It appears that the \$25.00 per child per household sanction would have no maximum. Does the State have any evidence that a sanction of more than \$25 is necessary to get the caretaker to comply? If so, has the State considered a more progressive sanction or a maximum limit?
- o The proposal states that persons receiving AFDC benefits on behalf of a child may be exempt from the sanctions for good cause, i.e., a medical condition which makes immunization undesirable, or the parent or legal guardian of the child objects to immunization for religious reasons. Additionally, a family would be exempt from the sanction if the child were ill when an immunization was due, and they show a good faith effort in getting the child immunized and intend to continue with the immunization process. The proposal further notes that Medicaid does not cover the full cost of immunizations making it difficult to find providers because they have to pick up extra administrative costs. Would Texas be willing to assist families who have problems finding a provider, or add lack of access to providers as a good cause exemption? Additionally, the proposal notes that language can be a barrier to immunizations. Effective communication is necessary to communicate the need for the immunizations and schedules. Would Texas be willing to assist families in finding a bilingual provider, or also adding this as a good cause exemption?
- o A critical consideration for approving welfare reform demonstrations is that a rigorous evaluation design be employed to allow us to reliably measure impacts related to the waivers.

Neither establishing experimental and control groups based on the office to which clients go for assistance, nor assuring that these populations are comparable, as you have proposed, will accomplish this objective.

The preferred research design is random assignment of individual cases. Random assignment may be Statewide or restricted to a limited number of geographic areas which

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provide a large enough caseload to measure significant effects.

- o Federal matching funds are requested for all costs incurred as a result of this demonstration. If approved, the demonstration must be cost neutral to the Federal government with respect to AFDC, Food Stamps, Medicaid, and Emergency Assistance benefits and administrative costs. We will match costs to the extent that there is net cost neutrality over the full period of the demonstration.

Random assignment also provides a mechanism for determining cost neutrality, in that the control group can be used to estimate what costs would have been in the absence of the demonstration.



John Sharp
Comptroller of Public Accounts
Austin, Texas 78774

WR Texas

512/465-4000

LBJ State Office
Building

November 14, 1994

Mr. Bruce Reed
Deputy Assistant to the President
for Domestic Policy
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500-0006

Dear Bruce:

Lieutenant Governor Bullock has requested the Comptroller's Office to develop potential options for reform of the state's welfare system. Our analysts have just completed a draft of the paper - "Texans Achieving Independence: Public Assistance Reform Options." The package covers all areas of welfare reform, from preventing dependency to controlling fraud.

Before the paper is released, I am soliciting comments from public assistance experts, such as yourself. Any comments, suggestions and insight you could share will raise the overall value of the project.

Because of our tight schedule, it would be a great help if we could have any comments and suggestions by November 21. You may send your comments to the attention of Phyllis Coombes, Project Manager, Research Division. Please send your comments overnight by using our Airborne Express Account Number 666-80387.

If you have any questions, please feel free to contact Phyllis Coombes, at 1-800-531-5441, extension 3-4973. Thank you for taking the time to review this document. We are looking forward to receiving your input.

Sincerely,

Billy Hamilton
Deputy Comptroller

Enclosure

DRAFT

Independence for Texans: Public Assistance Reform Options

Prepared by

Texas Comptroller of Public Accounts

December 1, 1994

DRAFT

Contents

	<u>Page</u>
The Vision of Public Assistance Reform	1
Public Assistance in Texas	4
Program History	6
<i>Aid to Families with Dependent Children</i>	7
<i>Food Stamps</i>	8
<i>Medicaid</i>	8
<i>Job Opportunities and Basic Skills</i>	9
Poverty, Welfare and AFDC Caseload Growth	10
<i>Poverty in Texas</i>	10
<i>Welfare in Texas</i>	12
<i>Reasons for AFDC Caseload Growth</i>	16
Regional Variations in the Profile of Texas AFDC Recipients	19
<i>Educational Attainment</i>	19
<i>Unemployment Rates and Job Availability</i>	19
<i>Long-Term Dependence</i>	20
<i>Age Distribution</i>	21
Public Assistance: The Client's Perspective	22
Welfare Reform Efforts Nationwide	27

Goals and Recommendations for Texas 32

Prevent the At-Risk Population From Depending on Public Assistance 33

Teenage Pregnancy 33

School-to-Work Transition 37

Adult Literacy 40

Smart Jobs 40

Emergency Cash Assistance 41

Issue - Use JOBS Funds for Teens

Issue - Provide Incentives for Teenage Mothers to Complete High School

Issue - Establish a Guaranteed Prepaid Tuition Plan

Issue - Improve Texans' Literacy Levels

Issue - Create a Statewide System of Adult Learning Labs for Public Assistance

Recipients

Issue - Establish a Permanent "Rainy Day" Account for Smart Jobs

Issue - Provide Emergency Cash Assistance to Families in Crisis Situations

Issue - Increase Funding for Mental Health Care for Children and Families

Issue - Increase Federal Funding for Chemical Dependency and Treatment Services

Stop Returns to Welfare

Texas JOBS: How Do We Stack Up?

Issue - Create Innovative Local Training/Employment Programs

**Issue - Use Job Training Program Funding More Efficiently to Train Unemployed
and Underemployed Public Assistance Recipients**

Issue - Lower the JOBS Child Care Work Exemption Threshold

Issue - Extend the Supported Work Period for AFDC Clients to Reward Work

Issue - Increase Automobile and Asset Limits for AFDC Recipients

Issue - Establish Individual Development Accounts

Issue - Increase Earned Income Tax Credits to Texas Families

Enable Texans with Disabilities to Leave Public Assistance

Issue - Transfer Eligible AFDC Clients to SSI and SSDI

Issue - Provide Supported Employment to Texans with Disabilities

Encourage Personal Responsibility

Child Support Enforcement

Issue - Limit AFDC Benefits to 24 Months for Employable Recipients

Issue - Limit Benefits Based on Education Level

Issue - Create a Working Group to Improve Child Support Enforcement

Issue - Improve the State's Medicaid Cost Recovery Program

Issue - Increase Cash Medical Support Payments

Issue - Improve the State's Administrative Hearings Process for Child Support
Enforcement

Issue - Improve Information Collection in the AFDC and Child Support Programs

Issue - Establish an Education and Job Training Program for Absent Parents

Issue - Implement New Measures to Enforce Child Support Orders

Issue - Increase Cost Recovery and Fees for Child Support Enforcement

Issue - Expand the Voluntary Paternity Acknowledgment Program

Issue - Increase Use of Private Firms to Assist in Child Support Enforcement

Issue - Expand Voluntary Employer New Hire Reporting for Child Care
Enforcement

Issue - Modify the Stepparent Deeming Rule

Issue - Lengthen the Period of AFDC Unemployed Parent (AFDC-UP) Benefits

Issue - Remove Marriage Barriers for Low-Income Couples

Streamline the System and Reduce Fraud

Issue - Strengthen Powers and Policies of the Texas Health and Human Services Commission

Issue - Increase Local Flexibility in the Delivery of Health and Human Services

Issue - Integrate Eligibility Determination Systems for Health and Human Services Programs

Issue - Streamline Eligibility Determinations for Local and State Health Care Providers

Issue - Expand the Use of Electronic Benefits Transfer Technology

Issue - Expedite Payments for Child Care

Issue - Reduce Public Assistance Fraud in Texas

Issue - Establish a Public Assistance Fraud Oversight Task Force

Issue - Reduce Payment Error Rates for Food Stamps and Aid to Families with Dependent Children

Issue - Use Automated Fingerprint Imaging to Prevent Duplication of Benefits

Appendix A: Modeling AFDC Caseload Growth

Appendix B: The Importance of Housing for Welfare Reform

Appendix C: Welfare Facts and Figures

The Vision of Public Assistance Reform

The federal welfare system was created in 1935 to aid widows and children. Today, Americans widely view this system as one of the primary forces holding some families below the poverty line. The public perceives that the welfare system fails to get poor people back on their feet and into jobs. Many welfare recipients who do find full-time work wind up less well off than when they lived on welfare.

As a result, efforts are under way across the nation to encourage welfare recipients to become self-sufficient through training and employment. Concerned about long-term welfare dependency, increases in caseload, teen pregnancies and out-of-wedlock births, almost all states are implementing or exploring welfare reforms.

At the request of Lieutenant Governor Bob Bullock, the Comptroller has developed a set of recommendations to improve Texas' public assistance programs and to try new, more cost-effective methods of providing critical services to the state's neediest citizens. These initiatives draw on exemplary practices in other states, on federal proposals and on the views of a range of Texans with an interest in this issue. Our report proposes Texas-specific solutions as part of a legislative package on welfare reform.

These proposals differ from other states' public assistance reform efforts in several important respects.

First, the package of proposals in this report is *revenue-neutral*. Efficiencies gained from streamlining current operations and maximizing federal revenues would be used to finance demonstration projects to test new approaches to welfare reform. Of course, the primary goal is to lay out a broad range of sound options for the legislative leadership to consider.

Second, these proposals *go beyond welfare programs*. Some initiatives seek to reduce welfare dependency by preventing dropouts and improving school-to-work transition and adult literacy—measures to keep at-risk individuals from entering the system in the first place. Other initiatives are part of a broader effort to strengthen Texas' work force.

Third, these strategies are tailored to *meet the needs of Texans*. Texas has a relatively large low-income population and is very diverse both economically and demographically. There is no single rational “model” for welfare reform, and a “one size fits all” approach may not work throughout the state. Our proposals would give Texas’ local governments greater resources and opportunities to design their own training, employment and other programs.

Fourth, to avoid the “bleeding edge” of reform, *we do not recommend statewide implementation of largely untested programs*. Rather, we propose demonstration projects to test the feasibility and appropriateness of ideas that appear to have merit but—like many reform proposals—have no track record. These demonstration projects typically require federal waivers.

The initiatives in this package seek to accomplish five major goals:

- prevent Texas’ “at-risk” population from becoming dependent on public assistance;
- keep Texans from returning to the welfare rolls once they leave;
- enable Texans with disabilities to leave public assistance;
- encourage personal responsibility; and
- streamline the system and reduce fraud and administrative errors.

In developing this multi-part reform strategy, Comptroller analysts sought advice from national and state experts on public assistance, including the officials and senior staff of health and human service agencies. In June and July 1994, the Comptroller held roundtable discussions to elicit the opinions of state agencies and other organizations with a stake in welfare reform. Comptroller staff coordinated their efforts with those of the Senate Joint Interim Committee on the Family Code and the House Committee on Human Services Interim Study on Welfare Reform, which also held public hearings in the summer of 1994.

Comptroller analysts surveyed other states, collected state and national data and visited welfare offices in several parts of Texas to get a first-hand look at the processes and to discuss

reform efforts with front-line employees. Consultants with extensive knowledge of the public assistance system helped evaluate current processes and recommended reforms.

Changing the Focus of the Welfare System

The main administrative activities of Texas' current welfare system are determining the benefits for which clients are eligible and ensuring that the right amount of money gets to the right people. While those functions are important, the system places little emphasis on breaking the cycle of welfare dependency. If the federal government funded these programs according to how many people leave the welfare system, rather than how many people the system serves, the results might be quite different.

The Comptroller's Texas Performance Review, in its report entitled *Gaining Ground: Progress and Reform in Texas Government*, has recommended creating a new state agency to take charge of all major work force development programs in Texas. This new agency would operate job training programs now administered by the Texas Department of Human Services, Texas Department of Commerce, Texas Employment Commission, Texas Education Agency and other agencies.

A single agency in charge of work force development, education and employment could focus Texas' efforts to help families learn to support themselves. The new agency's success would be measured, among other indicators, by how well it gets Texans out of the welfare system and into jobs. Some of the recommendations in this report depend on the creation of that agency.

Reforming public assistance in Texas will not be easy, but this report lays out many options to reach that goal. These reforms aim not only to deliver benefits more efficiently, but to encourage recipients to view their benefits as transitional aid. Public assistance in Texas should not be a way of life; it should be a means to achieve permanent independence.

Public Assistance in Texas

The foundation of the public assistance system in Texas and other states is Aid to Families with Dependent Children (AFDC), a cash grant to families in which children are deprived of parental support. AFDC families become eligible for other assistance programs such as Medicaid and food stamps, which also serve some families who do not qualify for AFDC. Food stamps are 100 percent federally funded, while Medicaid and AFDC are partially funded by state matching funds.

States must provide Medicaid services for families receiving AFDC. When a family loses its AFDC cash assistance, it also loses Medicaid benefits unless it qualifies for transitional benefits. Several federal laws require states to extend Medicaid to other categorically needy groups, including pregnant women with children up to age 6 and children born after October 1983 in families below the poverty level.

Most AFDC families also qualify for food stamps. Although AFDC rules do not count food stamp benefits against AFDC eligibility, the food stamp program does consider AFDC cash assistance, reducing the food stamp benefit by 30 cents per dollar of income.

Only very poor families may receive AFDC. In fiscal 1992, 6 percent of Texas' AFDC families reported earned income in addition to their AFDC payments; their income averaged only \$214 per month.

In 1993, Texas' AFDC payments totaled \$533.5 million. That year, more than 2.6 million Texans received food stamps, up 43 percent from fiscal 1990; the value of food stamps distributed totaled \$2.2 billion.

A typical Texas family receiving AFDC includes a single female caregiver and two children who receive no financial support from their father. In 1994, the typical Texas welfare family received benefits totaling \$752 per month: \$188 in AFDC payments, \$269 in Medicaid and \$295 in food stamps. Texas' monthly AFDC grant is the nation's third lowest after

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Mississippi (\$120) and Tennessee (\$185). Texas also is among the lowest in per-capita Medicaid expenditures.

In states like Texas that provide low AFDC benefits, Medicaid is the primary driver of public assistance costs. Since Texas' Medicaid program began in September 1967, the state's costs have soared. From 1989 to 1993, costs rose by more than 20 percent annually. During the 1994-95 biennium, Texas will spend \$18.6 billion in state and federal funds for Medicaid—26 percent of the total budget, more than public safety, corrections and transportation combined. In the biennium, 13 percent of all state dollars—\$6.7 billion—will go to Medicaid.¹

Program History

Early American colonists modeled the new country's public relief system on principles of the British system, contained in the Elizabethan Poor Law of 1601 and the Law of Settlement and Removal of 1662. Three lasting principles of the "poor laws" were that:

- local communities are responsible for providing support for the poor,
- people are responsible for supporting their poor relatives, and
- towns are responsible only for their own residents.

The Law of Settlement required an individual's original legal residence to provide all needed aid. If an individual moved to a new parish, did not own property and could not guarantee that he or she would not seek public relief in the future, the parish could send the individual back to the original legal residence.

In the early stages of the U.S. welfare movement, communities implemented a wide range of state, local and community laws and practices. Geography, economic conditions and social attitudes influenced these laws. In 1682, Pennsylvania financed care for the poor with county taxes distributed by the courts. The overseer of the poor sent children to work or to apprentice with artisans or tradesmen, if their parents were unable to support them. In 1766, Pennsylvania passed legislation authorizing the construction of workhouses in Philadelphia, and a 1798 law authorized the state's counties to buy land for poor farms.

Poor farms were not as popular in southern states as in other parts of the country. In South Carolina, for example, even though poor farms were available, the law allowed local officials to give aid to poor people living with their relatives rather than force them to live in poorhouses.

When Franklin D. Roosevelt became president in 1933, a third of the nation's workforce (12 million to 15 million people) were unemployed, and an estimated 18 million people were

receiving public relief. Congress passed the Federal Emergency Relief Act soon after Roosevelt took office. This was the first U.S. law that addressed welfare as a national rather than a local problem.

In 1933, the average national monthly assistance grant was \$15. Although the federal government preferred the convenience of cash payments, it authorized local communities to disburse funds through cash, vouchers or supplies. Later that year, President Roosevelt introduced a jobs program called the Works Progress Administration to provide work for the able-bodied in exchange for government aid.²

Aid to Families with Dependent Children

The Social Security Act of 1935 established the Aid to Dependent Children (ADC) program, later renamed Aid to Families with Dependent Children (AFDC). The purpose of ADC was to preserve family life by enabling mothers to stay home with their children. As initially drafted, the law provided aid to children age 16 or younger living in "homes in which there was no adult person, other than the one needed to care for the child/children, who was able to work and provide the family with reasonable subsistence."³ The original draft would have provided support to families in which the primary breadwinners were ill, disabled, unemployed or underemployed. As enacted, however, the law provided support only to children who were deprived of support due to a parent's death, physical or mental impairment or absence (through desertion, divorce or confinement in an institution). In practice, children did not receive aid as long as their fathers lived at home.

Under ADC, the federal government contributed \$1 for every \$2 spent by states up to \$18 for the first child and \$12 for each additional child. The average national payment was \$31.73 per family. The federal government provided less in ADC payments than in its 50-50 matching grants for the aged, poor and blind, and provided no money for ADC mothers.

In 1988, the federal Family Support Act expanded AFDC with an emphasis on work and child support. Its main goal was to help parents and children obtain education, training and jobs.

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The program provides cash payments to needy children deprived of parental support if the father or mother is continuously absent from the home or is incapacitated, unemployed or deceased. AFDC also provides cash assistance to the caretaker living in the home with the children.⁴

Food Stamps

The federal Food Stamp program provides food coupons to families with low income and assets, regardless of family type or marital status. The U.S. Department of Agriculture administers the program nationally, and state welfare agencies administer it locally.

A federal food assistance program introduced during the Great Depression of the 1930s was a forerunner to the current Food Stamp program. The government distributed surplus food to the hungry to help the thousands who stood in bread lines as well as farmers who were unable to sell their produce. This program evolved into the Food Stamp Plan, under which families exchanged money for stamps to buy regular food items and received additional stamps to buy designated surplus foods at retail. The Food Stamp Plan was discontinued in 1943, when World War II reduced food surpluses and unemployment.

The depressed economy of the mid-1950s renewed public interest in providing food to the needy. The Food Stamp Act of 1964 established the current Food Stamp program and authorized expansion in states that wished to take part. In 1971, the federal government set uniform standards of eligibility and required all states to inform low-income individuals of the availability of food stamps. In 1972, the Texas Legislature initiated a statewide Food Stamp program. The federal program went nationwide in 1974, and program provisions have been modified several times since then.⁵ In 1987, Congress created the Food Stamp Employment and Training program for food stamp recipients.

Medicaid

The federal Medicaid program, part of President Johnson's War on Poverty, was created by Title XIX of the Social Security Amendments Act of 1965 to ensure access to health care for

low-income individuals. Medicaid is a kind of basic health insurance for the aged, disabled and those with chronic or long-term care needs. The program does not pay benefits to covered individuals but pays their health care providers directly.

A 1989 federal law expanded state Medicaid services for children. The new language requires that all state programs must "cover any medically necessary service that is needed by a Medicaid-eligible child, as long as that service is allowable under the federal Medicaid laws."⁶

Medicaid is jointly funded by the federal government and the states. The federal medical assistance percentage (FMAP) is based on a formula using the average state per-capita income compared to the U.S. average. FMAP rates are updated annually. Currently, the maximum FMAP is 83 percent and the minimum is 50 percent. For fiscal 1994, Texas' matching rate was 64.18 percent; Mississippi had the highest match, 78.85 percent. Twenty states matched federal funds at the minimum FMAP of 50 percent.

Job Opportunities and Basic Skills

The Family Support Act (FSA) of 1988 required states to establish a Job Opportunities and Basic Skills (JOBS) program to help needy families with children avoid becoming long-term welfare recipients. JOBS, which replaced the Work Incentive program, provides AFDC families with education, training and employment services to help them become self-sufficient. Services include child care for those who participate in approved education or training activities. Those who find employment receive transitional child care and Medicaid for 12 months.

FSA emphasizes the responsibility of both the custodial and the non-custodial parent. Parents receiving public assistance must participate in job training programs and seek employment. The non-custodial parent must pay child support. Title I of FSA increases child support enforcement efforts and seeks to improve the states' performance in establishing paternity for out-of-wedlock births and enforcing child support orders.⁷

Poverty, Welfare and AFDC Caseload Growth

Texas historically has had a relatively high poverty rate but stringent eligibility requirements for state welfare programs and a low level of benefits. As a result, participation in AFDC has been fairly low. Over the past 10 years, however, the state's AFDC caseload has burgeoned, largely because of the rapid increase in the number of female-headed households, and because of changes in AFDC benefits and the state economy. In the future, the AFDC caseload will continue to grow, but at a more moderate pace.

Poverty in Texas

Poverty is more pervasive in Texas than in the U.S. as a whole. In 1993, 3.2 million Texans—17.4 percent of the state population—lived below the poverty line of \$11,521 for a family of three, defined by the U.S. Bureau of the Census. In comparison, about 15.1 percent of all Americans are poor.⁸ Texas, like many southern states, has historically exhibited relatively low household incomes and a relatively high poverty rate because of low industrialization and wage rates, lower levels of education and job skills and a large rural and minority population.⁹

Texas' high poverty rate in comparison to the U.S. is associated with the state's relatively large Hispanic population. Poverty rates by race and ethnicity are fairly similar in Texas and the U.S. Roughly one-third of African Americans and Hispanics are poor, versus 10 percent to 15 percent of whites.¹⁰ Hispanics represent 26 percent of Texas' population versus only 9 percent of the U.S. population.

As a result of the relatively strong family and working traditions in Hispanic communities, Texas has a relatively large number of poor two-parent families with working parents. In Texas, about half of poor families with children have two parents present. In contrast, only about 35 percent of poor families in the U.S. are headed by both parents.¹¹ In addition, about two-thirds of adults in Texas' poor families with children are employed, compared to fewer than half of adults in comparable poor families across the nation.¹²

Short-term changes in the Texas economy appear to have less effect on poverty than do broad demographic trends. Despite major fluctuations in economic conditions, Texas' poverty rate has remained in the range of 16 to 18 percent since 1982 (see **Figure 1**). In both Texas and the U.S., long-term structural trends—including the rapid growth of female-headed families, particularly those with never-married mothers, and declining real wages among low-income workers—primarily account for the growing number of poor.

The number of poor, female-headed families is growing rapidly. In Texas, the number of female-headed families with children under 18—of which nearly half are poor—rose by one-third from 1983 through 1993. In the same period, the number of families with children under 18 headed by never-married mothers—two-thirds of which are poor—almost doubled.¹³

The reasons for the rapid growth in the number of never-married mothers are not well understood. Some of this trend appears due to the decline in the “supply” of marriageable men because of declining real wages and employment rates among young men. Some may reflect reduced incentives for women to marry due to the improving economic position of women. Finally, part may be due simply to the postponement of marriage and the growing social independence of women in American society.¹⁴

Declining real wages add to the poverty problem. Because of relatively stagnant real wages and the loss of low-skilled, relatively high-paying jobs, the average inflation-adjusted income of the poorest 20 percent of households in Texas declined by nearly 15 percent from 1980 to 1990.¹⁵

The economic well-being of households typically is discussed in terms of the official poverty threshold, first established by the U.S. Social Security Administration in 1965. Today, the official poverty threshold is seriously outdated and probably significantly understates the level of income needed to make ends meet in modern America. Updated estimates indicate that the level of income a family needs to establish self-sufficiency today is at least 50 percent above the official measure.¹⁶ Still, this report refers to the official poverty threshold because it is used in most welfare-related programs to establish eligibility and benefits.

Welfare in Texas

Texas' welfare program is characterized by stringent income eligibility requirements and relatively low benefits. To qualify for benefits *initially*, a single parent with two children may earn no more than 60 percent of poverty, compared to 80 percent of poverty on average nationwide. After receiving benefits for one year, a Texas family loses all benefits if its annual earnings exceeds \$6,000. Nationally, the same family could earn up to \$8,500 per year on average before losing benefits.¹⁷

In fiscal 1994, an average of 277,000 families, or 781,500 persons, received AFDC and related benefits in Texas.¹⁸ The typical AFDC family—a mother and two children—received a maximum AFDC grant of \$188 per month, or about \$2,250 annually, less than 20 percent of the poverty level. AFDC families, however, automatically qualify for food stamps and Medicaid benefits. The total combined value of AFDC, food stamps and Medicaid in Texas—about \$9,350 annually—is about two-thirds of the income from a full-time, minimum-wage job (including additional income from the Earned Income Tax Credit and the cash value of food stamp benefits) and three-quarters of the poverty threshold.¹⁹ (See **Figures 2 and 3**.)

The typical Texas AFDC caretaker (household head) is a single 30-year-old female with 12 or less years of schooling, no current employment and no additional outside sources of income. The typical family includes an average of two children, one of whom is of preschool age. About 40 percent of Texas AFDC caretakers are Hispanic, 35 percent are African American and almost one-quarter are white.²⁰ Almost half have never been married.²¹ Although data are not available for Texas, slightly more than 40 percent of the caretakers on nationwide AFDC rolls are single women who were teenagers when they gave birth to their first child.²²

Especially in Texas, AFDC largely excludes most of the "working poor." Except for participants in Texas' small AFDC-UP (Unemployed Parent) program, federal and state requirements automatically exclude the bulk of the 55 percent of poor families in Texas in which the parents are still married. About 20 percent of Texas' poor population who live in single-

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parent households are also automatically excluded.²³ Even within the target group of poor female-headed families with children under 18, only about 45 percent receive AFDC benefits in Texas, compared to 60 percent of such families in the U.S.²⁴

An overwhelming majority of caretakers begin receiving AFDC benefits because of a change in their family circumstances. Nationally, more than 80 percent of householders begin receiving benefits because of the mother's divorce or separation or when an unmarried woman starts a family by having her first child (see **Figure 4**).

Demographic factors also play a major role in *exits* from the welfare rolls. About 30 percent of mothers leave welfare because of marriage; another 15 percent do so because they no longer have an eligible child or the number of family members has decreased (see **Figure 5**).²⁵

Work is another significant factor affecting movement off the caseload. About 40 percent of exits from Texas' AFDC rolls are work-related.²⁶ These new workers, however, are unlikely to find permanent jobs. National figures indicate that about two-thirds of recipients who leave AFDC because of work are likely to return to the rolls within five years.²⁷

The role of work in the lives of AFDC caretakers is the subject of fairly intense debate. Officially, slightly less than 6 percent of Texas' AFDC households have earned income, averaging about \$214 per month.²⁸ Because reporting earnings often threatens a recipient's AFDC eligibility, however, these official statistics greatly understate the role of work in recipients' lives. National figures indicate that at least 40 percent of AFDC mothers either combine welfare and work or "cycle" between welfare and work over their lifetimes.²⁹ State surveys indicate that 35 percent to 40 percent of AFDC recipients have worked at some time in the past year.³⁰

Even these survey results, however, may understate the importance of work in making ends meet in AFDC families. In-depth interviews with welfare mothers in four U.S. cities indicate that almost 40 percent of recipients supplement their household income with "off-the-books" earnings in the "informal" economy.³¹

Most welfare recipients, however, cannot rely on full-time employment for an extended period. While about one-third of nationwide AFDC recipients in 1988 worked at some time during the year, only 6.5 percent worked on a full- or part-time basis for the entire year.³² Because of low wage rates, poor job security and lack of medical, child care and other benefits in the jobs available to welfare recipients, many mothers view welfare as a type of "unemployment insurance" as they repeatedly cycle between welfare and work.³³

The lack of health insurance coverage in most low-wage jobs appears a particularly important barrier to employment for welfare mothers. Fewer than 40 percent of female heads of families with children are covered by private health insurance. Some analysts have estimated that extending private health insurance to all female workers would decrease the national AFDC caseload by more than 10 percent and increase the employment rate of female family heads by almost 15 percent.³⁴

The welfare population is not static. About 60 percent of Texas welfare recipients have been on the rolls one year or less during the latest "spell" or period of continuous receipt of benefits. When all spells are considered, about half of Texas AFDC caretakers have received benefits for two years or less (see **Figure 6**).³⁵ Although the average Texas beneficiary will receive benefits for only a little more than one year in the current spell, most will eventually return to welfare. Nationally, about three-quarters of caretakers who leave AFDC eventually return to the rolls within five years.³⁶ About 55 percent of Texas AFDC caretakers have been on the rolls two or more times and about 30 percent have been on the rolls three or more times (see **Figure 7**).³⁷

Overall, Texas' AFDC caseload appears to comprise three groups:³⁸

(1) *Short-term recipients (15 percent)* rarely use AFDC; even then, they receive benefits for only a short time. They tend to be older white women with relatively small families of older children. These women have strong education and work experience and are temporarily forced to turn to welfare because of family crises such as divorce or separation. These recipients are usually able to regain self-sufficiency quickly.³⁹

(2) *Income combiners and cyclers (60 percent)* combine the income of welfare benefits and work and/or repeatedly cycle between work and welfare. Like the first group, these recipients are primarily high school graduates with strong previous work experience and have relatively small families with older children. Unlike short-term recipients, however, income combiners and cyclers are likely to be young, non-white mothers who have never been married. Many also receive social security and other non-means-tested benefits, which often provide an additional financial buffer allowing easier transitions from welfare to work.⁴⁰

(3) *Long-term recipients (25 percent)* remain on the welfare rolls for an extended period. This group is dominated by African American and Hispanic mothers who are relatively young, have never married and have relatively large families of younger children.⁴¹ These recipients have relatively low levels of education, little work experience and generally enter the welfare rolls early in their lives.⁴²

Texas AFDC recipients appear to remain on welfare rolls for a shorter period than the U.S. average. The 50 percent of current Texas AFDC recipients who have been on the rolls for two years or less compares to about 35 percent of the U.S. caseload. Recipients who have been on the AFDC rolls for five years or more make up only about one-quarter of the Texas caseload, versus 45 percent of the national caseload.⁴³ The median stay on welfare in Texas is about 14 months, compared to 22 months nationally.⁴⁴ These differences probably result mainly from Texas' relatively stringent income eligibility requirements for AFDC.

Even though long term-recipients comprise a relatively small portion of the Texas welfare caseload at any time, they receive the highest benefits and—because they remain on the caseload so long—probably account for most of the program costs.

International immigration has a relatively small impact on the AFDC caseload. Officially, AFDC pays benefits only to families headed by legal aliens and to U.S. citizens' children in otherwise eligible households. Except in unusual cases, families who are in the U.S. illegally may not receive benefits.⁴⁵ In fiscal 1992, only about 35,000 (13 percent) of Texas' AFDC households included legal aliens, compared to 11 percent of AFDC households nationally.

Households with legal aliens represent 35 percent of California's AFDC households and 17 percent of New York's. Also, the \$132 average monthly grant to Texas AFDC households with aliens is well below the average grant of \$166 to non-alien households in the state.⁴⁶

Reasons for AFDC Caseload Growth

Since 1983, the number of Texas families served by the AFDC-Basic program has increased by almost 10 percent per year, from about 105,000 cases in 1983 to 270,000 in 1993 (see **Figure 8**). Three factors probably account for this rapid growth:

- the rapid growth in the number of female-headed households,
- changes in AFDC benefits and the state economy that have made welfare more attractive than work to some citizens, and
- changes in AFDC eligibility requirements and the qualification process that have made it quicker and easier to qualify for benefits.

The U.S. Congressional Budget Office found that the rapid growth in the number of female-headed families explains almost 60 percent of the increase in the national AFDC caseload from 1989 through 1992.⁴⁷ Similar trends are evident in Texas. From 1983 to 1993, the number of female-headed families with children under 18 and with never-married mothers increased by almost 7 percent annually, while the number of families in which the mother was separated or divorced increased by only 1.5 percent per year. Given that about 50 percent of never-married mothers use AFDC benefits versus only about 25 percent of single/divorced mothers, the underlying growth in Texas' AFDC caseload due solely to demographic factors was about 3.5 percent per year.⁴⁸

Economic factors have contributed to AFDC caseload growth in two ways. First, since 1983, the real value of AFDC-related benefits has increased by about 10 percent, mainly because of the increased cost of Texas' Medicaid program.⁴⁹ At the same time, real wage rates in

retailing—the most typical work alternative to welfare—have declined by 10 percent.⁵⁰ This shift in the benefits of AFDC versus work probably explains much of the growth in the AFDC caseload during this period. Second, the state economic downturns in 1982-83, 1986-87 and 1990-91 added even more to AFDC caseload growth. Since 1982, caseload growth during economic downturns has averaged twice that during economic expansions.

Changes in state and federal eligibility requirements and the qualification process also may have increased Texas' AFDC rolls somewhat. Since 1982, federal income "disregards" for work-related expenses of AFDC clients increased twice, in October 1984 and more significantly in October 1989.⁵¹ The availability of the new JOBS job-training program in October 1990, combined with greater dissemination of information on state welfare benefits as required by the Family Support Act of 1988, also may have increased the number of AFDC clients. Finally, Medicaid outreach programs in state hospitals, along with efforts of the Department of Human Services to automate the eligibility process, may have identified more potential AFDC clients and made it faster and easier to qualify for benefits.⁵²

Appendix A describes the Comptroller's regression model of the factors influencing Texas' AFDC caseload growth. This model indicates that demographic factors—particularly the growth of female-headed households—account for about 35 percent of the 168,000 increase in the state's AFDC caseload from 1983 to 1993. Additional families headed by separated/divorced mothers accounted for about 7 percent of Texas' total caseload increase, while new families headed by never-married mothers accounted for 28 percent of the gain.

Nearly 60 percent of Texas' caseload growth has resulted from changes in the trade-off between welfare and work. The 10 percent increase in real AFDC benefits, mainly due to growing Medicaid costs, accounted for about one-quarter of the caseload increase, while the 10 percent decline in real wage rates in retailing accounted for one-third of the gain.

These results illustrate the significant role of the availability of health insurance in the decision to use AFDC rather than work. Because of growing medical costs, potential AFDC mothers who have children with health problems often have little alternative to going on welfare,

when the only other choice is to take a job in retailing with declining real wages and no health insurance coverage.

The final factor significantly affecting the growth in the state AFDC caseload since 1983 is the implementation of the JOBS program in October 1990. The attractiveness of expanded job training and child care programs under JOBS led to a one-time increase of about 5 percent to 10 percent in Texas' AFDC caseload.

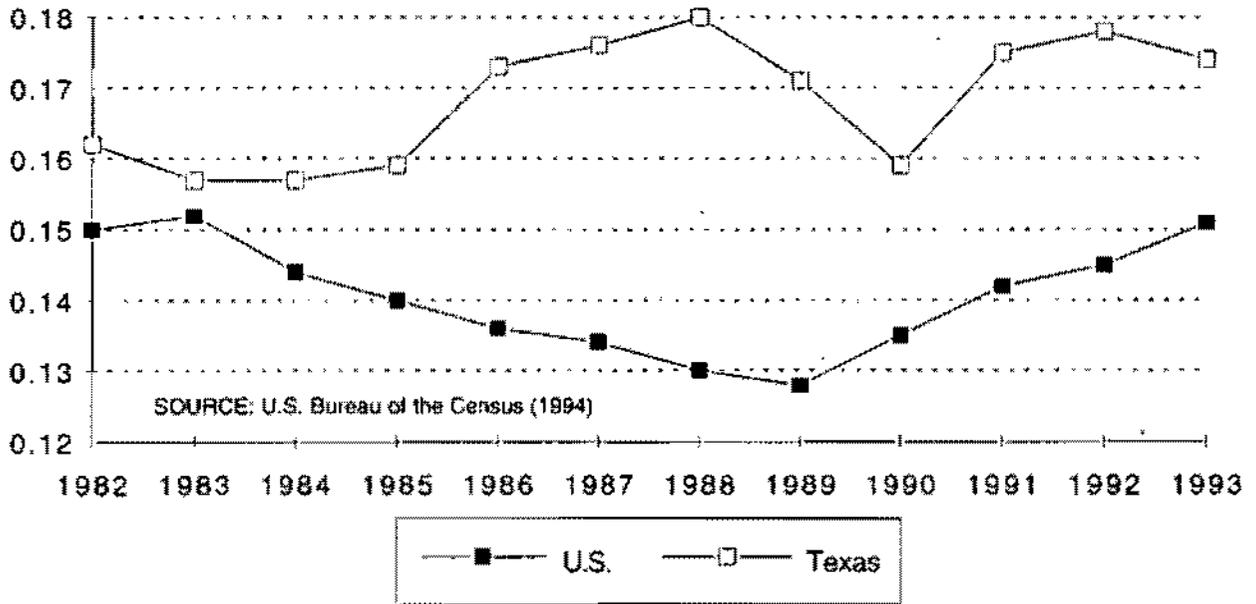
Overall, the health of the Texas economy, as measured by job availability, appears to have had little effect on AFDC caseload growth over the past decade. In fact, job availability was marginally better in 1993 than in 1983, slightly reducing the potential number of welfare recipients. Changes in job availability, however, have significantly affected Texas' AFDC caseloads in periods when the state economy has moved from recession to recovery or vice versa.

The implications of current demographic and economic trends for future poverty and welfare in Texas are not reassuring. The rapid growth of female-headed families, particularly those headed by never-married mothers, will continue. This growth of families highly vulnerable to poverty will make it hard to reduce the state poverty rate significantly, even with a healthy economy. In addition, although the Texas economy will remain healthy, real wages are likely to remain stagnant as health care costs continue to soar.

These trends suggest that although AFDC caseload growth will slow in good economic times, it is likely to soar when the economy turns sour. On average, Texas' AFDC caseload should continue to grow at an average rate of about 5 percent per year through 2000.

2/2/93

Figure 1
Texas and U.S. Poverty Rates, 1982 to 1993

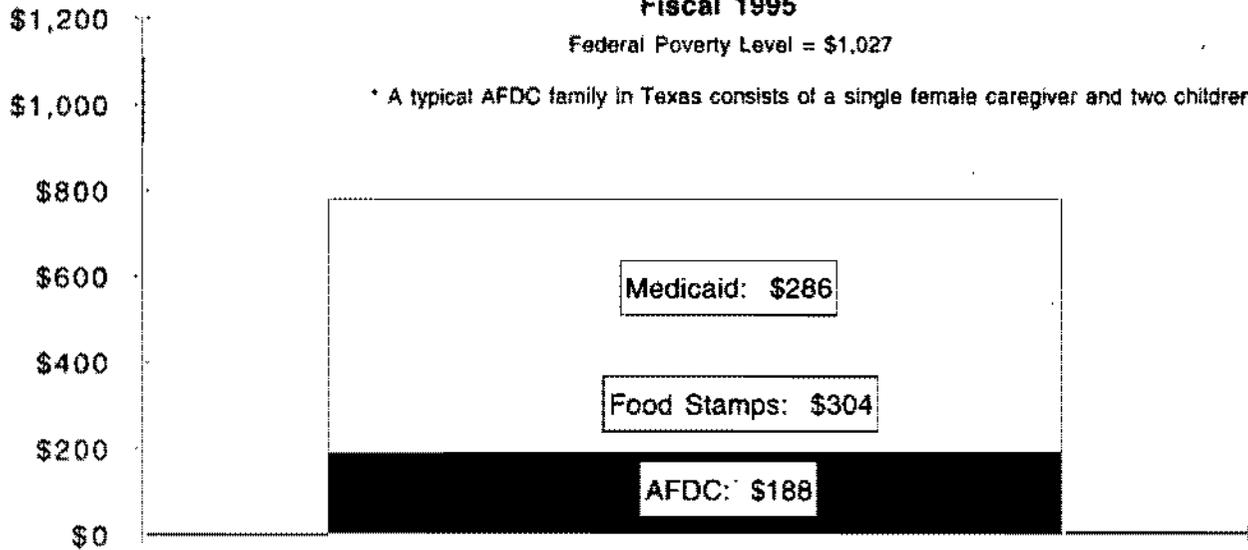


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Figure 2
Estimated Value of Monthly Benefits and Services for a Typical AFDC Family*
Fiscal 1995

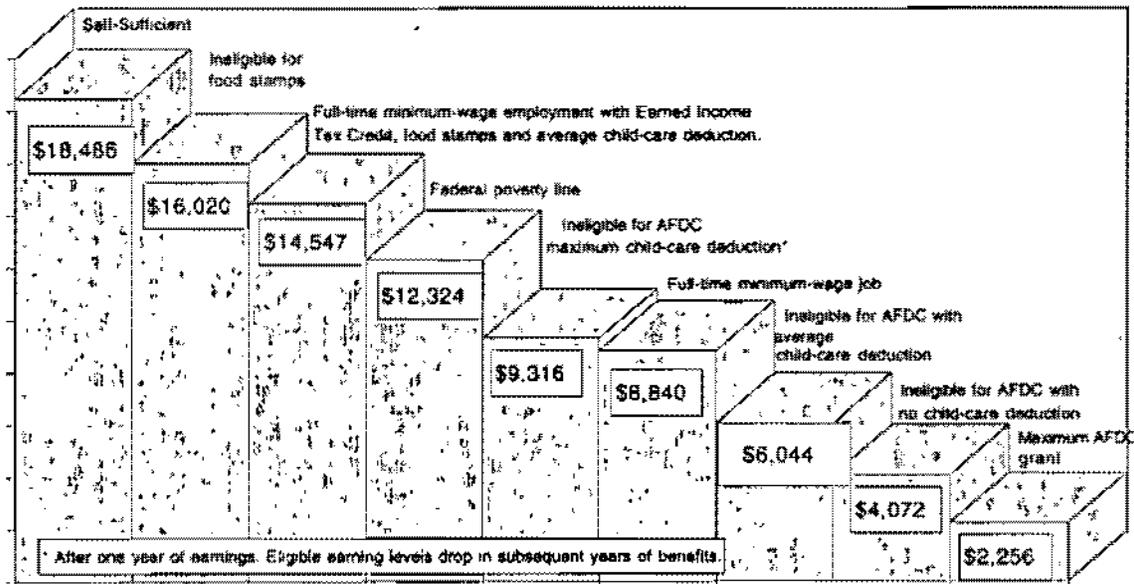
Federal Poverty Level = \$1,027

* A typical AFDC family in Texas consists of a single female caregiver and two children.



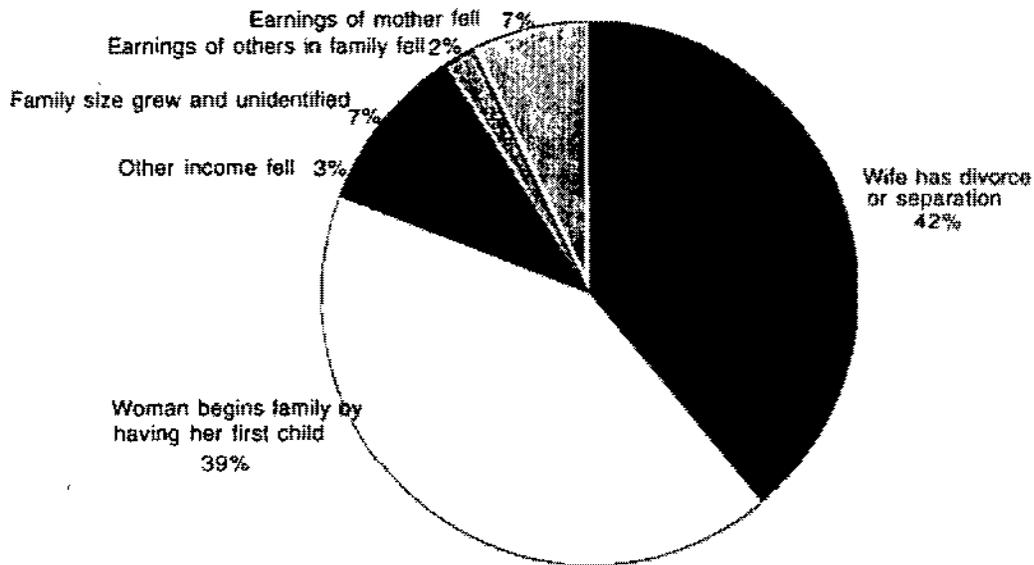
SOURCES: Texas Department of Human Services and Legislative Budget Board.

Figure 3
AFDC Eligibility and Benefits in Texas, Fiscal 1995



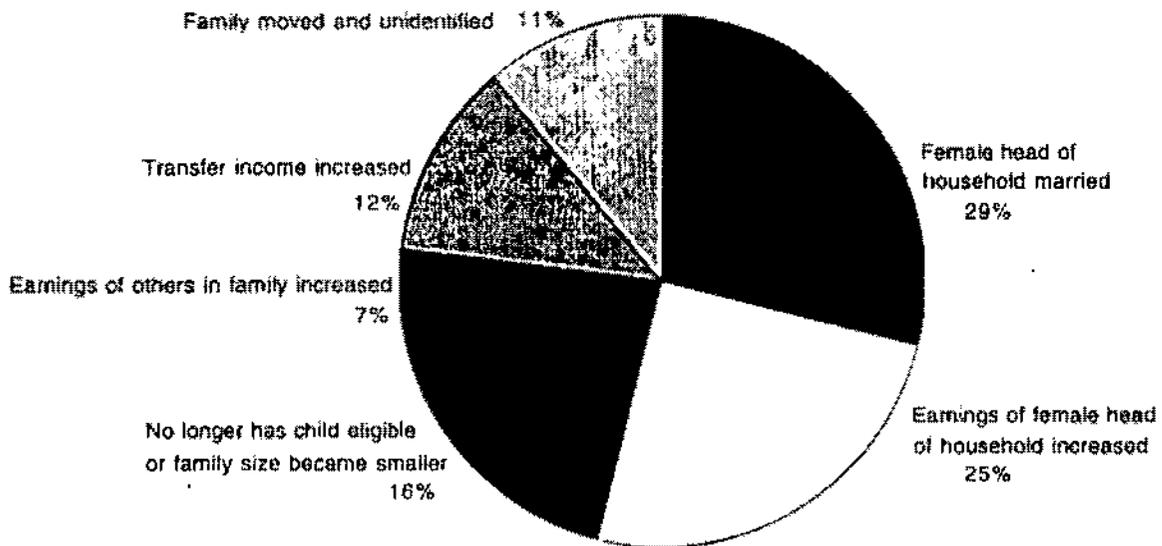
SOURCE: John Sharp, Texas Comptroller of Public Accounts.

Figure 4
Events Associated with the Beginning of AFDC-Basic Spells



SOURCE: Bane and Ellwood (1994)

Figure 5
Events Associated with the Ending of AFDC-Basic Spells



SOURCE: Bane and Ellwood (1994)

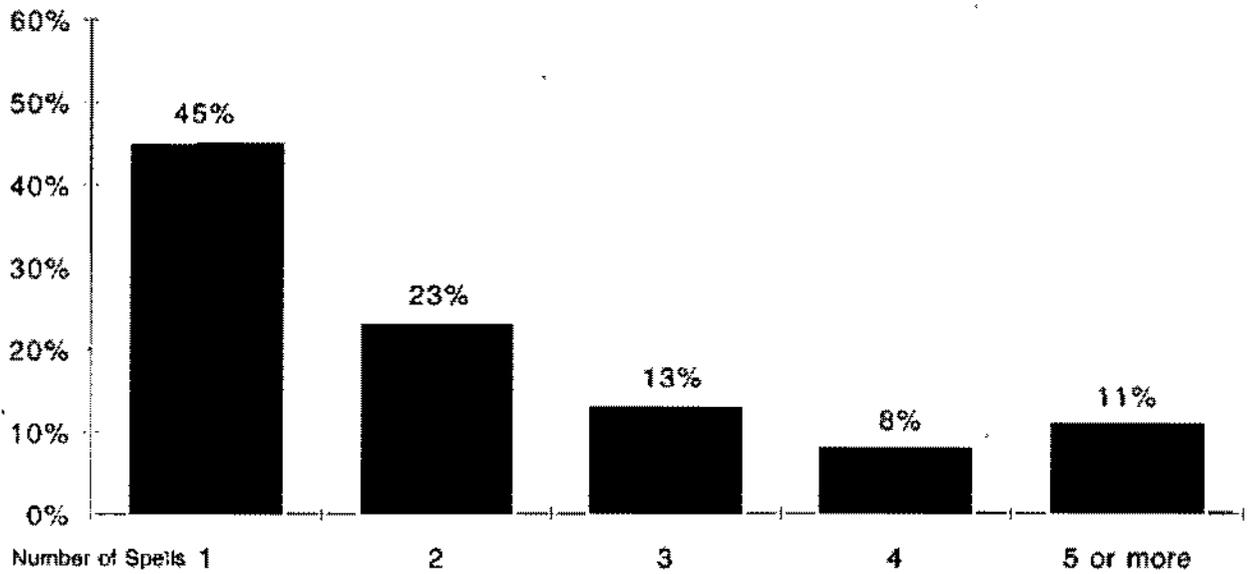
Figure 6

Share of AFDC-Basic Recipients by Period
of Continuous Receipt of Benefits,
Fiscal 1993

Time On AFDC-Basic	Percent of Recipients	
	All Spells	Latest Spell
1 Year or Less	32.5%	81.0%
1 - 2 Years	16.3%	15.6%
2 - 3 Years	10.9%	7.4%
3 - 4 Years	8.2%	4.7%
4 - 5 Years	6.7%	3.5%
5 - 6 Years	5.1%	2.3%
6 - 7 Years	3.1%	1.4%
7 - 8 Years	2.6%	1.1%
8 - 9 Years	2.1%	0.8%
9 - 10 Years	1.9%	0.5%
10 - 11 Years or more	10.7%	1.8%
Total	100.0%	100.0%

SOURCE: Texas Department of Human Services.

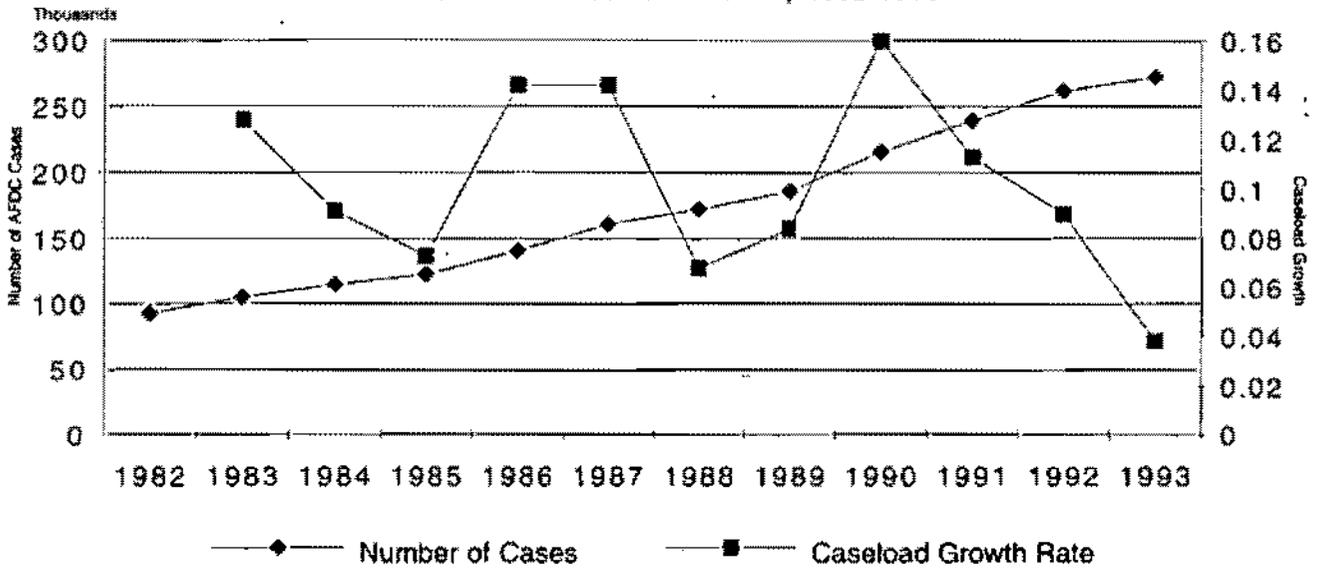
Figure 7
Number of Spells of Texas AFDC Recipients, 1990



SOURCE: University of Texas Center For The Study Of Human Resources

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Figure 8
Texas AFDC Caseload Growth, 1982-1993



SOURCE: Texas Department of Human Services

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Regional Variations in the Profile of Texas AFDC Recipients

From the standpoint of welfare reform, the most important characteristics of AFDC recipients are their education, age, access to jobs and length of time on the welfare rolls. Analysis of Texas' adult AFDC caseload for fiscal 1993 shows that these characteristics vary substantially for recipients in Texas' 10 economic regions. **Tables 1 and 2** show economic and demographic characteristics relevant to welfare reform for each region.

Educational Attainment

A strong inverse correlation exists between the percentage of a region's population that relies on AFDC and the percent of adults in the region with high school diplomas or GED certificates. In a preliminary analysis, the percentage of adults over 25 with at least a high school diploma or GED accounted for almost half the variation in adult AFDC participation in the 10 regions.

In South Texas, which has the highest AFDC participation of any region with more than 6 percent of the population on AFDC in 1993, slightly more than 63 percent of adults age 25 and older have high school diplomas or GEDs. In comparison, just over 3 percent of residents in the Metroplex region were on AFDC in 1993, and more than 78 percent of Metroplex adults have high school diplomas or GEDs.

There is also an inverse correlation between educational attainment and long-term dependence on AFDC. The percentage of a region's AFDC enrollees with at least a high school diploma or GED has the strongest association with how many enrollees will be on the rolls for more than two years. While county educational levels appear a main—if not *the* main—predictor of the county's initial AFDC enrollment, however, its relationship to the county's long-term dependence pattern is less clear.

Unemployment Rates and Job Availability

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As might be expected, a strong correlation exists between AFDC reliance and county unemployment rates. As **Maps I and II** show, counties along the Texas-Mexico border have both the highest jobless rates and the greatest AFDC participation in Texas.

Much of the correlation between unemployment rates and AFDC participation may actually be related to educational attainment. Unemployment appears to explain most of the variation in AFDC participation rates until educational attainment is factored into the equation. If education and unemployment are both considered, however, unemployment is no longer significant.

For example, although the Upper Rio Grande region has higher unemployment than South Texas—12.2 percent versus 10.4 percent—AFDC participation is only 5.2 percent in the Upper Rio Grande, compared to South Texas' 6.4 percent. This variation is explained partly by the Upper Rio Grande's slightly higher high school graduation rate (63.5 percent versus 63.2 percent).

No correlation appears to exist between county unemployment rates and the amount of time individuals spend on AFDC.

There is a correlation between the number of jobs available in the community and both overall AFDC participation rates and long-term dependence on AFDC. In both cases, however, job availability appears to be tied to other factors such as educational attainment.

Long-Term Dependence

The phenomenon of long-term welfare dependence demands much more in-depth study. Initial analyses of the major economic and demographic characteristics of AFDC recipients do not explain the variation in length of enrollment throughout the state.

African Americans appear most at risk of long-term dependence. Statewide, about 73 percent of African American recipients in fiscal 1993 had been on the rolls longer than two years, compared to 47 percent of white recipients and 58 percent of Hispanic recipients. From a regional perspective, Southeast Texas has the highest percentage of African American adult

AFDC recipients, 51 percent, and the highest percentage of recipients who have been on welfare longer than 10 years, 15 percent. This pattern is by no means universal, however. African Americans make up 47 percent of Metroplex AFDC parents, yet only 9 percent of Metroplex parents have been on the welfare rolls longer than 10 years.

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Overall, limiting AFDC participation to two years would affect somewhat more than half the recipients in all but 50 counties in the state.

Age Distribution

The most significant aspect of age distribution in Texas' AFDC caseload is the concentration of recipients over age 37 in South Texas. Parents over 37 make up 9 percent of AFDC recipients in South Texas, compared to 4 percent to 6 percent in other areas of the state. About 22 percent of Hispanic recipients are over 37, compared to 15 percent of white recipients and 14 percent of African American recipients.

Younger teen parents make up only a small fraction of AFDC cases in Texas. Throughout the state, recipients under 17 made up about 2 percent of the 1993 adult caseload.

Texas Population Characteristics By Region

Region	1992 Percent Unemployed	1990 Poverty Rate	1993 Population	1990 Percent of Family Households with Female Heads	1990 Percent of Adults Over Age 25 with HS Diploma or GED	1992 Percentage of Population			
						White	Black	Hispanic	Other
Central Texas	5.9	17.1	1,800,659	14.8	76.0	68.9	12.2	16.7	2.2
Gulf Coast	7.8	14.8	4,102,545	16.5	74.7	57.7	17.5	21.2	3.6
High Plains	6.5	18.5	751,488	12.4	70.2	70.1	5.0	23.5	1.4
Metrolplex	7.5	11.8	4,523,598	15.0	78.1	71.0	13.4	13.0	2.7
Northwest Texas	7.2	17.2	530,010	12.1	68.5	80.9	5.2	12.8	1.1
South Texas	10.4	26.8	3,307,039	17.2	63.2	35.8	3.7	59.4	1.1
Southeast Texas	9.2	19.5	676,974	15.6	68.8	73.5	20.7	4.5	1.3
Upper East Texas	8.8	18.1	922,603	14.2	69.0	77.5	17.7	4.2	0.7
Upper Rio Grande	12.2	26.5	658,988	19.2	63.5	24.9	3.3	70.5	1.3
West Texas	8.3	19.1	531,662	12.6	67.1	63.1	4.2	31.6	1.0

SOURCES: U.S. Bureau of Labor Statistics and Texas Employment Commission; U.S. Bureau of the Census; Texas State Data Center; U.S. Bureau of the Census; U.S. Bureau of the Census.

Texas Population Characteristics By Region

Region	1993 Adult AFDC Recipients	1993 Percentage of Adult AFDC Recipients				1993 Percent of Adult Recipients With:		1993 Percent of Adult Recipients With Total Spells Longer Than:		1992 Ratio of Recipients to Population
		White	Black	Hispanic	Other	Fewer Than 9 Years School	HS Diploma or GED	2 Years	10 Years	
Central Texas	24,333	36.0	36.2	27.0	0.8	11.9	54.7	61.3	11.4	3.3
Gulf Coast	84,385	24.6	49.8	23.4	2.0	11.4	57.7	62.9	12.7	4.4
High Plains	15,192	33.7	17.1	48.5	0.7	17.9	45.7	58.4	6.7	3.9
Metroplex	70,006	35.0	47.4	15.7	1.9	9.9	57.8	55.3	8.9	3.1
Northwest Texas	8,555	57.7	16.8	24.8	0.8	13.6	51.0	57.0	6.1	3.0
South Texas	94,965	11.1	6.2	82.5	0.3	32.0	37.1	61.0	13.3	6.4
Southeast Texas	14,664	44.5	51.3	2.8	1.4	8.6	59.3	66.9	14.7	4.5
Upper East Texas	19,053	50.8	44.4	4.4	0.4	8.7	60.3	60.3	12.4	4.0
Upper Rio Grande	17,156	7.7	3.5	88.4	0.3	26.9	45.8	52.9	7.1	5.2
West Texas	12,510	29.5	11.2	58.4	0.9	24.8	40.3	56.4	6.1	3.9

SOURCES:

Texas	Texas	Texas	Texas	Texas	Texas	Texas	Texas	Texas	Texas	Texas
Department of	Department	Departm	Departmen	Departm	Department of	Department of	Department of	Department of	Department	Department of
Human	t of Human	ent of	t of Human	ent of	Human Services,	Human	Human	Human	of Human	Human
Services, 1993	Services.	Human	Services,	Human	1993 AFDC Adult	Services, 1993	AFDC Adult	AFDC Adult	1993 AFDC	Services, Annual
AFDC Adult	1993	Services,	AFDC	Services,	Data File	Data File	Data File	Data File	Adult Data	Report
Data File	AFDC	1993	AFDC	1993					File	
	Adult Data	AFDC	Adult Data	AFDC						
	File	Adult	File	Adult						

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For the first-time recipient, a trip through Texas' labyrinth of welfare programs, applications, interviews and regulations is both intimidating and time-consuming. To obtain assistance for basic necessities, an individual may have to visit as many as 15 offices and complete several interviews and applications. Then, a recipient who finds even a low-paying job risks losing part or all of the benefits.

The client's first step in getting on public assistance may be to visit a local office of the Texas Department of Human Services (DHS) to apply for AFDC, food stamps and Medicaid. As needed, DHS provides services to help establish paternity, locate absent parents, establish support and enforce support obligations. If necessary, DHS notifies the Attorney General's Office to request child support enforcement.

Texas' child support enforcement program collected \$370 million in 1993, more than double the collections of 1983, and obtained more than 34,000 support orders. More than 90 percent of the new cases coming into the system, however, have no orders.

Upon leaving DHS, the new client, seeking shelter, may journey to the local housing authority to complete another application and interview. The client may also apply for utility assistance here. The U.S. Department of Energy provides funds for household weatherization costs for low-income persons and those least able to provide for high energy costs, such as the elderly and disabled.

To fill the gap between being approved for public assistance and actually receiving benefits, the new client may obtain food from food pantries and get short-term emergency housing from the Salvation Army or local churches.

The client may then make an appointment to apply for the Special Supplemental Food Program for Women, Infants and Children (WIC). WIC provides families with items such as milk, eggs, cheese, infant formula, cereals and fruit or vegetable juices, as well as nutrition

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education. To qualify for the program, applicants must show evidence of health or nutrition risk, medically verified by a health professional.

Next, the client may apply for free food distribution. This U.S. Department of Agriculture program feeds people directly through food banks and soup kitchens.

Before enrolling her children in school, the client may take them to a public health clinic for free immunization, then travel to the local school to apply for free or reduced-cost school meals for the children. The National School Lunch Act helps states provide breakfasts, lunches, suppers and snacks.

Child welfare services cover a broad range of functions such as child protection, care for homeless and neglected children, nutritional or emotional development services and children in out-of-home care. These services are designed to support or protect the child until the family can provide financial support or perform appropriate parenting. Federal assistance enables states to provide funds for foster care and adoption assistance.

Visiting the local Head Start office, the client fills out another application, this time for language development services and hearing screening for any preschool children.

The client now must obtain education, job training and support services such as child care and transportation through JOBS (the AFDC program) and Food Stamp Employment and Training (FSET). If necessary, the client may contact the local literacy council.

At this point, the client may arrange for child care through a state contractor. States must guarantee child care for a welfare recipient if such care is necessary for the individual to work or to attend required education and training programs. States also must pay for transportation and other work-related activities.

After the client locates the Texas Employment Commission and files for job search and placement services through JOBS and FSET, she may fill out yet another application, this time for additional job training and assessment under the Job Training Partnership Act.

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Although the AFDC need standard covers food, clothing, shelter, utilities, essential personal care and household items, the standard may also provide for special dietary needs, pregnancy allowance or expenses for training or education.

If the need arises, the client may go to the local Social Security Administration and apply for Supplemental Security Income (SSI), cash payments for needy, aged, blind and disabled persons. AFDC recipients and their families may also qualify for Adult Basic Education, English as a Second Language, Compensatory Education, Vocational Rehabilitation Services and Pre-Kindergarten programs. AFDC clients and some other low-income groups qualify for college education assistance through Pell Grants and College Work-Study programs.

Clients who can navigate through the convoluted bureaucracy finally wind up on the road to self-sufficiency. Since the qualifications for public assistance benefits vary from program to program, requiring the applicant to satisfy scores of complex regulations—and because programs often have limited funding—the applicant's struggle often ends in defeat.

Endnotes

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- ¹Texas Comptroller of Public Accounts, *Medicaid: Where Does It Hurt?* (Austin, Texas, December 1993), p. 3.
 - ²Mickey Kaus, "The Welfare Mess—How It Got That Way," *Wall Street Journal* (September 12, 1994), page ___.
 - ³Lucy Komisar, *Down and Out in America: A History of Public Welfare* (New York: Franklin Watts, 1977), pp. 63-64.
 - ⁴U.S. House of Representatives, *1994 Green Book: Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means* (Washington, D.C., July 15, 1994), p. 234.
 - ⁵U.S. Department of Agriculture, Food and Nutrition Service, *Food Program Facts* (Alexandria, Virginia, May 1993), page ___.
 - ⁶Texas Health and Human Services Commission, *Texas Medicaid in Perspective* (Austin, Texas, date), p. 14.
 - ⁷Frank F. Furstenberg, Jr. et al., *Parent's Fair Share Demonstration, Caring and Paying: What Fathers and Mothers Say About Child Support*, Manpower Demonstration Research Corporation (city, state, July 1992), p. 83.
 - ⁸U.S. Bureau of the Census, "Census Bureau Announces Numbers of Americans in Poverty Up for the Fourth Year Although Poverty Rate Unchanged," news release (Washington, D.C., October 6, 1994), p. 7. Historical figures on poverty in Texas and the U.S. are from U.S. Bureau of the Census, *Poverty in the United States: 1992*, Current Population Reports Series P-60, No. 185 (Washington, D.C., September 1993), pp. D-2-4 and p. 2.
 - ⁹For a more complete discussion of the history of regional economic development and growth in the U.S., see Harvey S. Perloff, Edgar S. Dunn, Eric E. Lampard and Richard E. Muth, *Regions, Resources, and Economic Growth* (Baltimore: Johns Hopkins Press, 1960).
 - ¹⁰In Texas, approximately 14 percent of whites, 31 percent of African Americans and 33 percent of Hispanics were poor in 1990. In the same year, about 11 percent of whites, 32 percent of African Americans and 28 percent of Hispanics were poor in the U.S. See U.S. Bureau of the Census, *1990 Census of Population, Social and Economic Characteristics, Texas*, 1990 CP-2-45 (Washington, D.C., September 1993), p. 179, and U.S. Bureau of the Census, *Poverty in the United States, 1990*, Current Population Reports, Series P-60, No. 175 (Washington, D.C., August 1991), p. 15.
 - ¹¹University of Texas Center for the Study of Human Resources, *Welfare in Texas: Selected Findings and Implications* (Austin, Texas, July 29, 1994), p. 10.
 - ¹²University of Texas Center for the Study of Human Resources, *Texas Jobs Program Evaluation: Final Report* (Austin, Texas, June 30, 1994), p. 8.

- ¹³ Estimates of the number of female-headed families and of poverty rate by family type are based on Comptroller tabulations of the Census Bureau's Current Population Survey for 1983, 1985 and 1989 through 1993. This analysis begins in 1983 because according to the U.S. Congressional Research Service, 1983 is the first year for which consistent estimates of the number of families by type can be obtained from the survey. In 1993, the poverty rate in Texas for female-headed families with children under 18 was 45 percent, while the poverty rate for families headed by never-married mothers was 67 percent.
- ¹⁴ Robert D. Marc and Christopher Winship, "Socioeconomic Change and the Decline of Marriage for Blacks and Whites," in Christopher Jenks and Paul Robertson, *The Urban Underclass* (Washington, D.C.: The Brookings Institution, 1991), pp. 175-196.
- ¹⁵ According to the U.S. Bureau of the Census, *1980 Census of Population, Social and Economic Characteristics, Texas*, PC80-C45, Section 1 (Washington, D.C., July 1983), p. 118, and *1990 Census of Population, Social and Economic Characteristics, Texas*, p. 178, the average income of the poorest 20 percent of households in Texas increased by 35 percent from \$3,850 in 1980 to \$5,200 in 1990. From 1980 to 1990, the cost of living as measured by the Consumer Price Index increased by almost 60 percent, indicating a net decline of almost 15 percent in the average inflation-adjusted income of the poorest 20 percent of households.
- ¹⁶ Patricia Ruggles, *Drawing the Line: Alternative Poverty Measures and Their Implications for Public Policy* (Washington, D.C.: Urban Institute Press, 1993), pp. 33-35, 41, 47-52.
- ¹⁷ In most cases, AFDC eligibility and benefits are calculated based on the difference between the state's maximum benefit and household earnings, less allowable work and child care expenses. These calculations are based on a maximum benefit for a family of three of \$188 per month in Texas and a median national monthly benefit of \$366. Work expenses are calculated based on the national limit of \$120 per month plus one-third of earnings over allowable expenses during the first four months and \$120 per month in the subsequent eight months of employment. See *1994 Green Book*, pp. 328-332. According to the University of Texas Center for the Study of Human Resources, "Memorandum on AFDC Income Eligibility" (Austin, Texas, August 1, 1994), p. 1, the average child care expense in Texas in fiscal 1993 was \$141 per month for households claiming such expenses.
- ¹⁸ Fiscal 1994 estimates of AFDC cases and recipients were obtained from the Texas Department of Human Services, September 23, 1994 (fax transmission). The figures include about 36,000 persons (8,450 cases) in the AFDC Unemployed Parent program. The remainder are in the AFDC-Basic program for poor single parents with children.
- ¹⁹ According to the Texas Department of Human Services, the cash value of the maximum AFDC and food stamps benefit in fiscal 1995 was \$188 and \$304 per month, respectively. The fiscal 1995 value of Medicaid benefits, \$286 per month, was estimated by the Comptroller's office based on the fiscal 1994 average monthly benefit of \$269 and the estimated 6.2 percent growth rate in Medicaid benefits for AFDC recipients from fiscal 1994 to fiscal 1995 as reported by the Legislative Budget Board, *Fiscal Size-Up: 1994-95 Biennium* (Austin, Texas, 1994), pp. 5-10 and 20.
- ²⁰ Texas Department of Human Resources, "Response to Comptroller of Public Accounts Questions About Welfare in Texas" (Austin, Texas, June 15, 1994), pp. 14-16.
- ²¹ Comptroller calculations based on data in University of Texas Center for the Study of Human Resources, *Patterns of Participation in Texas Welfare and Training Programs: How Hispanics Differ from Other Race/Ethnic Groups* (Austin, Texas, January 1994), p. 18.
- ²² U.S. General Accounting Office, *Teenage Mother Least Likely to Become Self-Sufficient*, GAO/HEHS-94-92 (Washington, D.C., May 31, 1994), p. 14.
- ²³ *1990 Census of Population, Social and Economic Characteristics, Texas*, p. 178.
- ²⁴ Comptroller calculations based on the Census Bureau's 1993 Current Population Survey.
- ²⁵ Mary Jo Bane and David C. Ellwood, *Welfare Realities: From Rhetoric to Reform* (Cambridge, Massachusetts: Harvard University Press, 1994), pp. 54 and 57.
- ²⁶ Because of the dynamic nature of movements on and off the welfare rolls, estimates of the role of work in exits from the welfare rolls are very sensitive to the frequency of the data used in the analysis. Annual data from Bane and Ellwood, *Welfare Realities*, p. 57, indicate that about one-third of recipients leave the rolls because the earnings of the household head or others in the family increased. Monthly data from LaDonna Ann Pavetti, *The Dynamics of Welfare and Work: Exploring the Process by Which Women Work Their Way Off of Welfare*, Malcolm Weiner Center for Social Policy Dissertation Series No. D-93-1 (Cambridge, Massachusetts, May 1993), p. 40, indicate that nationally, about 45 percent of recipients leave welfare because of work. The 42 percent estimate of Texas welfare recipients leaving the rolls because of employment or an earnings increase, based on data from the University of Texas Center for Human Resources, *Welfare in Texas*, p. 3, is consistent with the national figure.
- ²⁷ *The Dynamics of Welfare and Work*, p. 51.
- ²⁸ *1994 Green Book*, p. 416.
- ²⁹ Roberta M. Spalter-Roth, Heidi I. Hartmann and Linda Andrews, *Combining Work and Welfare: An Alternative Anti-Poverty Strategy* (Washington, D.C.: Institute for Women's Policy Research, April 1992), p. 9.
- ³⁰ Mark Greenburg, *Beyond Stereotypes: What State AFDC Studies on the Length of Stay Tell Us About Welfare as a "Way of Life"* (Washington, D.C.: Center for Law and Social Policy, July 1993), pp. 23-31.

- ³¹ Kathryn Edin, "The Myth of Dependency and Self-Sufficiency: Women, Welfare, and Low-Wage Work," paper presented at the 34th Annual Workshop of the National Association for Welfare Research and Statistics (Austin, Texas, July 31-August 3, 1994), p. 7.
- ³² Child Trends, Inc., *Welfare Mothers as Potential Employees: A Statistical Profile Based on National Survey Data* (Washington, D.C., 1991), reported in Greenburg, *Beyond Stereotypes*, p. 25.
- ³³ *The Dynamics of Welfare and Work*, pp. 136-149.
- ³⁴ Robert Moffitt and Barbara Wolfe, "Medicaid, Welfare Dependency, and Work: Is There a Causal Link," *Health Care Financing Review* (Fall 1993), pp. 125 and 128.
- ³⁵ Texas Department of Human Services, Austin, Texas, September 29, 1994 (fax transmission).
- ³⁶ *The Dynamics of Welfare and Work*, p. 51.
- ³⁷ *Patterns of Participation in Texas Welfare and Training Programs*, p. 19.
- ³⁸ This typology of welfare recipients is based on *Patterns of Participation in Texas Welfare and Training Programs*, pp. 19-20. The share of recipients in each category was estimated by the Comptroller's office as follows: (1) short-term recipients, 32 percent of recipients on the welfare rolls one year or less times 45 percent of recipients expected to have only one spell on welfare; (2) long-term recipients, 25 percent of recipients on the rolls for more than five years; and (3) combiners and cyclers, 100 percent less the 15 percent short-term recipients and 25 percent long-term recipients.
- ³⁹ *Welfare Realities*, pp. 42-53, and University of Texas Center for the Study of Human Resources, *A Baseline Analysis of the Factors Influencing Welfare Duration and Labor Market Outcomes* (Austin, Texas, June 1991), pp. 26-27.
- ⁴⁰ *Combining Work and Welfare*, pp. 20-24. Although national figures indicate that about 40 percent of welfare recipients combine work and welfare or cycle between the two, this share is probably higher in Texas because the state's relatively stringent income eligibility requirements prevent many recipients from staying on welfare for an extended period.
- ⁴¹ *Combining Work and Welfare*, pp. 9-10.
- ⁴² *Welfare Realities*, pp. 32, 49 and 52.
- ⁴³ Texas Department of Human Services, "Response to Comptroller," p. 14, and *Welfare Realities*, p. 32.
- ⁴⁴ *Welfare in Texas*, p. 18.
- ⁴⁵ Telephone interview with Gerald Joireman, Division of Program Evaluation, Office of Family Assistance, Administration for Children and Families, U.S. Department of Health and Human Services, October 12, 1994.
- ⁴⁶ U.S. Department of Health and Human Services, *Overview of the AFDC Program, Fiscal Year 1993* (Washington, D.C., June 1994), p. 25.
- ⁴⁷ U.S. Congressional Budget Office, *Forecasting AFDC Caseloads with an Emphasis on Economic Factors* (Washington, D.C., June 1993), p. 14.
- ⁴⁸ Estimates of the nationwide percentage of never-married and single-divorced mothers who used welfare benefits in 1991 came from U.S. Congressional Research Service, *Demographic Trends Affecting Aid to Families with Dependent Children Caseload Growth* (Washington, D.C., December 19, 1992), p. 18. The underlying growth rate in the AFDC caseload due to demographics from 1983 to 1993 was calculated based on the growth rate in single/divorced mothers times their probability of being on AFDC (6.7 percent times 0.49) plus the growth rate of single/divorced mothers times their probability of being on AFDC (1.4 percent times 0.24).
- ⁴⁹ The real value of combined AFDC, food stamp and Medicaid benefits increased from about \$696 per month in 1983 to \$770 per month in 1993 (in 1993 dollars). During this period, the real value of Medicaid benefits alone increased by more than 20 percent, from \$236 to \$288 per month, while the combined value of AFDC and food stamp benefits increased by only 5 percent, from \$460 to \$483 per month. For this analysis, annual maximum AFDC and food stamp benefit figures came from the Texas Department of Human Services. The average monthly Medicaid benefit for AFDC recipients was calculated based on annual Health Care Finance Administration Form 2082 information.
- ⁵⁰ *Combining Work and Welfare*, p. 27. About three-quarters of working welfare recipients nationally are employed in services or retailing. The average retail wage rate, obtained from the Comptroller's State of Texas Econometric Model, was used in this analysis because the overall wage rate in services includes relatively high-paying jobs in business and health services, probably not available to most AFDC recipients. In Texas, the average retail wage rate, adjusted for inflation, fell from about \$1,383 per month in 1983 to \$1,257 per month in 1993 (in 1993 dollars).
- ⁵¹ *1994 Green Book*, pp. 328-330.
- ⁵² Texas Department of Human Services, "Memorandum on Welfare Reform Research", (Austin, Texas, July 20, 1994).

Welfare Reform Efforts Nationwide

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Almost all states are pursuing some type of welfare reform. These efforts are as diverse as the states themselves, yet they share common goals. Overall, they strive to encourage work by reducing penalties on earnings, to enforce parental responsibilities (particularly child support), to alter rules that penalize two-parent families, to simplify the delivery of benefits, to create jobs for welfare recipients and to improve access to child care and health care.

Many state approaches to public assistance reform require exceptions to federal law before implementation. States must obtain federal waivers to enact certain changes in AFDC and food stamp programs. To do so, a state must show that its new program is designed as a pilot project, lasting for a limited period and involving only a portion of the state, and that it is cost-neutral to the federal government. That is, while the state may spend more money, the federal government will approve no plan that costs it more than it would have spent on the same recipients had they been served under existing rules. Changes in other aspects of public assistance that do not affect federal law, such as child support enforcement, require only state legislative approval.

Many states are seeking to modify stringent AFDC rules that restrict welfare families from earning a reasonable income and from accumulating assets, at the risk of losing benefits. Current rules reduce a family's AFDC grant by one dollar for every dollar the family earns and prevent families from acquiring assets of more than \$1,000 or owning a vehicle worth more than \$1,500. Some exceptions help ease the depletion of AFDC benefits due to employment. For example, AFDC recipients may deduct child care and work-related expenses from their income and, during a four-month grace period, may keep one-third of their income after other deductions. Seventeen states have pilot programs to permit higher earnings and raise the limits on assets and vehicle value without reducing the AFDC grant.

One criticism of AFDC regulations is that two-parent families face more stringent eligibility requirements than do single-parent families. Thirty-four states are attempting to

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strengthen rather than penalize families by repealing or altering the main disincentives for staying together. These disincentives include:

- the "100-hour rule" prohibiting two-parent families from receiving AFDC if either parent works more than 99 hours per month;
- the "work history test" requiring the principal earner to prove employment over a period of time before applying for benefits; and
- the "stepparent deeming rule," which counts a portion of the stepparent's income as being available to the rest of the AFDC family.

As for program efficiency, 35 states, including Texas, are exploring electronic delivery of public assistance benefits. States are replacing AFDC checks and food stamp coupons with plastic benefit cards, using the same technology as bank debit cards.

Fourteen states have pilot projects designed to create jobs for AFDC clients. California and Oregon try to encourage employers to hire AFDC clients by allowing the use of AFDC grants to subsidize wages. In Illinois, about 300 public assistance recipients in 1992 were trained and employed in housing rehabilitation projects. In Iowa, Minnesota, Michigan and South Carolina, AFDC recipients are trained to start their own businesses. Overall, 30 states have implemented or are planning job creation programs for AFDC recipients.

Currently, AFDC clients receive child care and health care benefits for only one year after they begin work. Many critics consider this a barrier to long-term self-sufficiency. At least 31 states are considering extending this transitional support. Comprehensive health care reform efforts in states such as Hawaii and Tennessee may extend health benefits beyond the cutoff.

Beginning in January 1995, employers in Texas will get a tax break for hiring AFDC recipients. To receive this one-time tax credit, the employer must agree to cover 80 percent of the worker's medical insurance and keep the worker on the payroll for at least one year. The credit, which applies to many taxes collected by the Comptroller, may not exceed \$2,000 per employee.

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State strategies differ on whether to adjust the level of benefits in response to recipients' behavior. Experts say it is still too early to determine whether it is more successful to reward recipients for improving their education, work or health habits, or to penalize or sanction them for refusing to change.

Wisconsin's "Learnfare" program requires all teen parents and teen recipients to attend school; failure to comply may cost them a portion of their AFDC grants. Learnfare assistance includes child care, transportation, alternative education funding and case management. Ohio's Learning, Earning and Parenting Project (LEAP) requires all teen AFDC teen parents to attend school and offers bonuses to teens with good attendance. In Missouri, a volunteer program on the drawing board will assign business leaders, teachers and neighbors to be mentors to welfare teens and children. This pilot program also will permit AFDC teens who work to keep their wages and benefits if they stay in school, live with their families and have no more children.

Colorado has implemented a program requiring a five-county pilot group of AFDC parents (10 percent of the statewide caseload) to have their children age two and younger fully immunized against infectious diseases. Two counties in Florida also require AFDC children to be immunized as a condition of benefits. Four states are participating in a pilot project to integrate public health with child care, a key objective being to increase the percentage of children who are properly immunized.

Several states ask public assistance recipients to perform community service. In Iowa, community service is an option under the Family Investment Agreement, the state's new social-contract initiative. A two-year-old Michigan program requires welfare recipients to perform 20 hours of community service per week. New York is developing waivers that would involve pay for performance in community service programs.

Controversy surrounds several reform initiatives: placing time limits on AFDC benefits, limiting family benefits despite additional births and "cashing out" food stamp benefits.

According to the National Governors Association, 25 states are studying proposals to require AFDC recipients to get a job after a certain period of assistance. These proposals range

DRAFT

from a time limit on benefits without either guaranteed employment or community service to individually tailored "social contracts," as in Iowa.

Several states have implemented "family caps" to prevent mothers on AFDC from getting additional benefits if they bear more children. The pilot programs range from denying cash assistance for any child born at least 10 months after the mother enrolls in AFDC, as in New Jersey, to limiting benefits for the birth of an additional child in families that have received benefits for more than two years, as in Georgia.

"Cash-out" initiatives offer welfare recipients the cash equivalent of food stamp benefits, a move designed to make clients more responsible. Minnesota consolidates food stamps, AFDC and family general assistance into a single cash benefit pilot program with simplified eligibility rules and income allowances. An Ohio proposal would use food stamp and AFDC benefits to supplement wages. Oregon will subsidize minimum-wage jobs for welfare recipients by converting food stamp and AFDC benefits to wages. Wisconsin plans a pilot program in which food stamps would be included in a cash benefit. Three Alabama counties have operated a "cash-out" system for food stamps since 1990.

States that seek to demonstrate innovative ways to meet the goals of a federally funded program must first apply for a waiver of federal laws, rules or regulations. The federal government has approved large and small demonstration projects. One approved project covers an entire state. Demonstration projects usually are limited to three to five years. The government is reluctant to approve projects for less than three years because measuring the effectiveness of such programs requires rigorous evaluation.¹ It can be difficult to assess the effectiveness of programs operated for less than two years.

Federal approval of waiver applications may take from one month to two years. Most states obtain approval within six months. Predictably, proposals that break new ground take the longest to approve, while minor changes to a program generally receive quick approval.

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In the following sections of this report, all proposals requiring federal waivers are recommended for three years to allow enough time to complete an evaluation without committing the state long-term.

Endnote

¹ Interview with Cindy Mann, senior policy analyst, Center on Budget and Policy Priorities, city, state. October 10, 1994.

DRAFT

**Goals and Recommendations
for
Public Assistance Reform in Texas**

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Prevent the At-Risk Population From Depending on Public Assistance

Dependence on public assistance often results from a series of problems—difficulty staying in school, lack of basic educational skills, teenage pregnancy, divorce or separation, losing a job. Part of reforming Texas' public assistance programs is helping those most at risk of dependence to avoid the downward spiral.

At-risk Texans typically lack the education and job skills to get or keep well-paid jobs. Many are single parents or pregnant teenagers who lack the income to support their children. Many teenage parents drop out of school before obtaining the necessary education for a productive life.

The most direct way to reform Texas' welfare system is to reduce the number of Texans who enter the system in the first place. The recommendations in this section seek to prevent at-risk Texans from joining the welfare rolls by:

- reducing teen pregnancy rates and encouraging more teen parents to finish high school,
- increasing adult literacy,
- ensuring the availability of money for work force training through the state's Smart Jobs Fund, and
- providing emergency cash assistance to divert certain at-risk families from welfare.

Teenage Pregnancy

The public costs of teen pregnancy are significant because teen parents are more likely than other young people to drop out of school, become unemployed or underemployed, live in poverty and depend on welfare programs. President Clinton has characterized births to unwed mothers and teenage pregnancy as the driving forces behind many national problems related to poverty, crime, drugs and educational failure.

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Teenage mothers make up nearly half of the national Aid to Families with Dependent Children (AFDC) caseload. From 1976 through 1992, about 42 percent of all single women receiving AFDC were or had been teenage mothers. In 1992, fewer than half of the women who had given birth as teenagers had a high school diploma. Teen mothers earn less and are more likely to have family incomes below 50 percent of poverty. They also contribute significantly to high dropout rates.

Teen pregnancy in Texas has reached alarming proportions. In 1990, the birth rate for mothers age 13 to 19 was 55.7 per 1,000 teenage women, and Texas ranked sixth nationally in the birth rate for mothers age 15 to 19.¹ In 1991, Texas led the U.S. in births to girls age 14 or younger and ranked second in births for girls age 15 to 19. From 1991 through 1993, the resident birth rate for teenage mothers remained stable at about 58 per 1,000 teenage women.²

The inability to secure a satisfactory diet and suitable prenatal care increases the risk of pregnancy complications, low birth weights, infant mortality, disease and social and emotional problems. In 1990, almost 10 percent of babies born to Texas girls under 18 were low-birth-weight babies. The average hospital cost that year for a baby weighing less than 5.5 pounds was \$39,000; for a baby less than 3.3 pounds, the cost could reach \$500,000.³ In fiscal 1991, Texas spent \$58.5 million on Medicaid births to teen mothers, plus \$32.3 million for AFDC benefits and \$22.9 million in Medicaid premiums for teen parents and their children.

In 1990, one-third of all dropouts from Texas public schools were pregnancy-related. The associated cost in lost income, tax revenues and unemployment insurance exceeded \$5.6 billion. More than half of Texas' AFDC recipients in 1993 did not have high school diplomas.⁴

Texas' primary program for teen parents is Pregnancy, Education and Parenting (PEP), operated by the Texas Education Agency (TEA). PEP seeks to reduce the number of students who drop out of school due to parenthood, and to place parents 21 or younger back into the educational system. Under the Texas Education Code, PEP programs must include various counseling, education, life skills and job training programs as well as support services such as day care and transportation.⁵

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For male teenagers, the Paternity/Parenthood (PAPA) project of the Texas Attorney General's Office has produced a curriculum guide for grades 9-12 that explores the legal, financial and social consequences of teenage parenthood.⁶ The program aims to ensure parental support while reducing public assistance costs to the taxpayer.

TEA, the Texas Department of Human Services (DHS) and eight school districts in El Paso County provide funding for the largest teen pregnancy prevention program in Texas. In 1993, the El Paso program served 1,817 teenagers from school district offices, clinics and youth organization facilities. Ninety percent of the teens served were mothers age 12 to 19. Five percent were repeat pregnancies.⁷ Ten percent of the teens served were males.

DHS also has funded neighborhood centers in Houston that have contracted with a local medical school to provide services for young mothers. A program in San Antonio helps teenage mothers in a housing project. Total DHS funding for the projects in El Paso, Houston and San Antonio is about \$600,000.⁸

Family planning programs in Atlanta, San Diego and Rochester, New York, address teenage birth rates by promoting sexual abstinence. Postponing Sexual Involvement (PSI), a course created by Grady Memorial Hospital and used in Atlanta eighth grade classes since 1985, teaches young people to wait until they can make mature decisions. The plan pays teen leaders to guide classes supervised by adults. More than 36,000 students in the Atlanta area have taken the class. A five-year evaluation found that students who had not taken the course by the end of eighth grade were five times more likely to have had sex than those who took the course. Sexually active teens who had taken the course were more likely to use birth control.⁹

As of March 1993, legislatures in 13 states had considered financial incentives for welfare recipients who use the contraceptive Norplant, but none had enacted these measures. Baltimore has the first program in a public high school that offers Norplant to students in addition to counseling about contraceptives, abstinence and sexually transmitted diseases. Michigan offers free or reduced-cost Norplant to low-income women. In April 1993, the state

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began providing Norplant to public health clinics for women who cannot afford the \$365 device plus additional medical charges.

Maryland, Delaware, Maine, Michigan, Georgia, California, Massachusetts, Vermont, Wisconsin, the Virgin Islands and Puerto Rico require teen parents to live at home or in a supervised setting to receive AFDC payments. Some experts, however, question requiring teen parents to return to their homes for help if they do not feel safe and secure there. Many teenagers who have experienced physical and/or sexual abuse become sexually active early.

The Ohio Department of Human Services developed the Learning, Earning and Parenting (LEAP) program, which uses financial incentives and penalties to encourage pregnant and parenting adolescents on welfare to attend school.

The U.S. Department of Health and Human Services funded the Teenage Parent Demonstration in New Jersey and Illinois from 1987 to 1991. Similar to LEAP, this demonstration program was mandatory for teenage mothers with one child and for first-time recipients of AFDC. The program provides case management, child care and transportation assistance and may withhold the teen's portion of the AFDC grant for failure to register or comply with job search requirements.

Under the federal Job Opportunities and Basic Skills (JOBS) program, which provides education, training and employment services for AFDC families, states may design their own programs for teen parents who are potential welfare recipients. Local agencies may use expenditures on teen services to match or draw federal JOBS funds.

In fiscal 1993, about \$10.9 million in federal JOBS funds were unclaimed in Texas. DHS projects that unclaimed funds will rise to \$19.3 million for 1994 and \$29 million for 1995.¹⁰ Texas could use these funds to provide services to help teen parents stay in school.

This report recommends three measures aimed at preventing teen dependence on welfare. One would expand the use of JOBS Title IV-A funds to provide local school districts with additional funds to develop dropout prevention programs. Another would discourage dropouts by prepaying tuition in post-secondary schools for selected high-risk,

low-income children. These two proposals appeared first in *Gaining Ground*, in 1994 report of the Comptroller's Texas Performance Review. Another recommendation would provide monetary incentives for teenage AFDC mothers to remain in school.

School-to-Work Transition

Earlier in this century, high school graduates had a reasonable assurance of a good job at the local factory or assembly plant. If a graduate could read and understand simple instructions, other plant workers could teach him the skills needed to perform the task or operate the machine. These jobs, the mainstay of the U.S. economy of the 1950s and 1960s, enabled many high school graduates to support their families with a single income.

The past decade, however, has witnessed a rapid decline in entry-level assembly jobs that offered high school graduates career advancement and good wage increases.

Beginning in the 1960s, as U.S. companies confronted the developing international economy and began competing directly with foreign producers, many found they could not compete effectively with imported products. European and Japanese companies began taking over U.S. markets.

As U.S. companies moved toward high-performance work structures, many reduced the number of middle managers to remain competitive. Factory production workers took over many functions once performed by college-educated managers and engineers. Workers who previously might simply have tightened a bolt or run a machine were asked to schedule production, order parts, design quality-control work plans, maintain equipment, set production goals and work in production teams to solve daily problems.

Most American production workers, however, had never been trained for those functions. Companies blamed the American school system for not properly training students to function in these new areas. Schools responded that they had been turning out good workers for years who suited the needs of the business community. Many soon realized that to teach the necessary new

skills, American business, industry and labor organizations must work with schools to design effective programs. DRAFT

Many Texans graduate from high school with few marketable skills, no connections to local employers and no knowledge of how to pursue an occupation. About half of Texas' high school graduates do not attend college before joining the work force. Many other students fail to graduate from high school.

Dropout rates in Texas, while declining, remain at unacceptable levels. The longitudinal dropout rate, which measures dropout rates over time, was about 18 percent in the 1992-93 school year, the most recent statewide figures available.¹¹ This is good news only in comparison with the 34 percent longitudinal dropout rate for 1987-88, when Texas—with a total population of 17.7 million—had more school dropouts than Japan, with its population of 129 million.

In 1993, the average unemployment rate for Texans age 16 to 19 was 21.5 percent—more than three times the overall unemployment rate. On average, more than 109,000 Texans in their late teens were out of work.

According to the Comptroller's projections, Texas will gain almost 1.4 million jobs between 1993 and the end of the decade. While high school graduates may be able to fill nearly half of those jobs, dropouts will qualify for only 14 percent—typically the dead-end, minimum-wage jobs with little chance for advancement and few benefits.

The challenge for Texas is to design programs to prevent these school dropouts from becoming the welfare recipients of the next century.

Schools and businesses have begun developing partnerships to design "career tracks" leading to broad occupational clusters that local job markets require. The federal School-to-Work Opportunities Act of 1994 gives local communities start-up funds and the freedom to implement programs that unite local businesses with public schools and community colleges to help young people make the transition from school to work.

Texas' Technical Preparation (Tech-Prep) program, funded by the federal 1990 Carl D. Perkins Act, began operating statewide in the 1993-94 school year, following several years of

pilot projects. The state's 24 Quality Work Force Planning Regions contain 25 Tech-Prep consortia that operate local programs. These consortia of public schools, community colleges, universities, businesses and labor groups work to develop skill standards and curricula targeted at the needs of local job markets. Each local program must be certified at the state level for content, delivery of services and assurance that it serves a rapidly growing employment area.

Local Tech-Prep programs involve two years of high school plus two years of post-secondary education, leading to an associate degree and an advanced skills mastery certification. The programs offer supervised, structured on-the-job training for community college students. High school students take a series of company tours with summer work experience guided by company mentors.

The School-to-Work Opportunities Act provided Texas with \$630,000 in start-up funding for Tech-Prep and similar programs in 1994 and will make more funds available over the next five years. The legislation focuses on the 11th and 12th grades and encourages high schools to set up programs to provide students with a solid core academic foundation, plus technical courses that teach applied skills. The core curriculum must produce advanced proficiencies in math, science and communications, with an emphasis on critical thinking, problem-solving and both individual and group activities.

The weakness of Texas' Tech-Prep system is that local businesses and industries are not yet sufficiently involved in the evolution of the program. In most parts of the state, high school students cannot participate in scheduled on-the-job training, as businesses and colleges must consider liability and child labor laws that affect work training efforts. Texas should encourage and eventually require its Tech-Prep programs to include on-the-job work experience in the high school years.

In countries like Germany, Sweden and Denmark, nearly all companies work closely with local schools to develop apprenticeship programs that assure a continuing supply of highly-trained workers. In Japan, companies work closely with high schools to interview and hire the brightest graduates.

Texas schools need guidance from employers to make sure the schools teach the skills that are needed in the workplace. Such partnerships also will provide needed on-the-job training positions for students in Tech-Prep and similar programs.

Adult Literacy

In 1993, the National Adult Literacy Survey, conducted by the Educational Testing Service for the U.S. Department of Education, reported that 6 million adult Texans—more than half of the adult population—are functionally illiterate. These Texans cannot read a bus schedule, write a letter or solve a simple math problem. They are also more likely to rely on welfare. The survey estimated that adult illiteracy costs Texas \$17 billion in lost income and taxes, welfare and unemployment payments, training, crime and incarceration.

Improving the basic education skills of Texans would greatly improve the quality of the Texas work force and prevent many Texans from entering the welfare system.

The Comptroller's Texas Performance Review has recommended two measures—reproduced in this section—to improve the literacy of adult Texans. In particular, one proposal calls for the creation of a statewide system of adult learning laboratories with child care facilities for AFDC recipients, using state and local money to match federal funds.

Smart Jobs

The Texas Legislature created the Smart Jobs Fund to help the state's businesses train new and existing employees for high-paying, high-skill jobs. The law dedicates one-tenth of 1 percent of Texas' taxable wages to the Smart Jobs Fund in years when the state's Unemployment Insurance Trust Fund is above the floor level. In years when the fund will be needed most, however—when state unemployment is high—Smart Jobs will have no funding.

A recommendation of the Texas Performance Review, reproduced in this section, proposes to create a "rainy day" account within the Smart Jobs Fund to help ensure the

availability of funds for work force training in years when unemployment insurance funds are unavailable. **DRAFT**

Emergency Cash Assistance

Some families receive AFDC to address short-term financial problems. These families could be diverted from the welfare rolls if they received emergency assistance. **In this section, we propose a demonstration project to determine whether providing emergency cash to families in crisis situations could divert potential AFDC clients.**

Other families could be diverted from the AFDC rolls by receiving timely treatment for mental health problems or chemical dependence. **The final two recommendations, already proposed by the Texas Performance Review, would increase these services to Texans by using federal funds available for emergency assistance under the Social Security Act.**

Endnotes

¹Child Trends, Inc., *Facts at a Glance* (Washington, D.C., January 1994), p. ____.

²Interview with Gail Larimer, Texas Department of Health, Bureau of Vital Statistics, Austin, Texas, November 10, 1994.

³Texas Department of Human Services, *Teen Opportunity Project* (Austin, Texas, October 28, 1993), p. IV-8.

⁴Texas Department of Human Services, *Demographic Profile of AFDC Caretakers* (Austin, Texas, August 1993), p. ____.

⁵V.T.C.A., Education Code §21.114.

⁶Letter from Cecelia Burke, Office of the Texas Attorney General, Austin, Texas, October 10, 1994.

⁷Interview with Cindy Noble, director, Project Redirection, Austin, Texas, October 12, 1994.

⁸Interview with Bill Pace, Texas Department of Human Services, Austin, Texas, October 13, 1994.

⁹Ellen Whitford, "New twist on an old line," *Atlanta Journal and Constitution* (April 3, 1994), p. 30.

¹⁰Texas Department of Human Services, *JOBS Expenditures* (Austin, Texas, October 14, 1994), p. ____.

¹¹Suzanne Gamboa, "Dropout rates on decline, state says," *Austin American-Statesman* (July 13, 1994).



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Use JOBS Funds For Teens

The state should expand the use of Job Opportunities and Basic Skills (JOBS) training program funding to help local school districts provide services that will encourage teen parents to stay in school.

Background

Over the last 20 years, about half of the single women receiving welfare in the United States were teenage mothers at one time. Teen mothers—considered the core of the welfare population—have less education and are less likely to ever leave poverty or marry, than welfare recipients who did not give birth as teenagers.¹ For these women, family responsibilities and poor education make holding down a job difficult. Women with high school diplomas or General Educational Development (GED) certificates are likely to leave welfare more quickly than those without.² The welfare system should encourage teen parents to stay in school.

According to data from the Texas Department of Human Services (DHS) and the Texas Education Agency (TEA), Texas has about 92,000 public school students, ages 12 to 22, who are eligible for Aid to Families with Dependent Children (AFDC). In fiscal 1993, the Texas AFDC rolls included 37,000 teen mothers.

The Family Support Act of 1988 created the Job Opportunities and Basic Skills (JOBS) training program to provide recipients of AFDC with the education, training and support necessary to gain employment and become economically self-sufficient. Under the federal program, states design their own projects to assist teen parents who are potential welfare recipients. In a June 1994 report to state agencies administering JOBS programs, the Office of Family Assistance of the U.S. Department of Health and Human Services noted: "Regardless of the service delivery approach taken, it is essential that states make serious efforts to ensure that young custodial parents receive the educational and supportive services they need to avoid long-term welfare dependency."³

Funding for JOBS

To qualify for federal funds under the JOBS program, expenditures on teen services at state or local levels may be used to match or draw federal JOBS funds, provided that the same amount of non-federal funding continues to be spent. Federal funds for JOBS programs cannot replace non-federal funds for existing services and activities. State or local funds expended for such purposes must be maintained at least at the level of expenditures for fiscal 1986.⁴

While there are limits on the amount of federal dollars available to each state, there is no limit on the amount of JOBS funding available for child care. Many teen parents do not attend school because they lack child care or transportation, or they face social or financial barriers, housing problems, dysfunctional families and dangerous neighborhoods.⁵

In fiscal 1993, approximately \$10.9 million in federal JOBS funds went unclaimed in Texas. DHS projects unclaimed funds of \$19.3 million for fiscal 1994 and in fiscal 1995, \$29 million.⁶ These funds could be used to provide services for teen parents to help them stay in school. Education increases the likelihood of eligible students' eventual employment, thereby decreasing the likelihood of dependence upon public assistance.

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JOBS Programs in Other States

JOBS programs for teen parents in other states tend to be local rather than statewide efforts, according to the federal Office of Family Assistance.⁷ One of the largest, the Teen Parent Demonstration programs in New Jersey and Illinois, have combined sanctions, effective case management and mandatory education and training to achieve a 19 percent increase in school attendance and employment.

In Arizona, several programs link JOBS funds with local money to serve pregnant and parenting teens. One small JOBS program in Phoenix contracted with the City of Phoenix's Young Families Can to help 113 teen parents obtain GEDs. Twenty-five participants received vocational training and 25 became employed.

States use funding from JOBS, local school districts, grants, cities, community schools, colleges and other private and public agencies to offer a variety of services to the students ranging from financial incentives to individual and family counseling. Oregon's JOBS program, for example, makes teen participation a top priority by lowering the eligibility age for teen parents and requiring all teen parents to participate in educational programs.

Not all teen programs are as successful as the programs mentioned above. New Chance, a national demonstration program in 10 states, targeted certain families headed by young mothers receiving AFDC. The publicly and privately funded voluntary program focused on education, employability development classes, personal development and life skills. Manpower Demonstration Research Corporation's evaluation of New Chance found that, while more than 40 percent of the women found work, more than 80 percent were on welfare 18 months later.⁸

JOBS in Texas

Texas' primary program geared to teen parents is Pregnancy, Education and Parenting (PEP) operated by TEA. PEP's mission is to enable school-age parents to become self-sufficient through education. The program aims to reduce the number of students who drop out of school due to parenthood, and strives to place parents who are 21 or younger back into the educational system. Under the Texas Education Code, PEP programs must include a variety of counseling, education, life skills and job training programs as well as support services such as day care and transportation.⁹

PEP was funded with \$24.6 million set-aside in Foundation School Program funds for the 1994-95 biennium. During the 1993-94 school year, PEP enrolled 18,652 teen parents and 11,205 children of teen parents. About 38 percent were high school dropouts; nearly a quarter received high school diplomas or GEDs. Child care was provided at an average cost of \$663 per student parent per year.

In addition to state compensatory education funds to serve teen parents, many Texas school districts use local, state and federal funds to stress career and vocational education. The opportunity exists, based upon efforts of other states, to combine state education funds—Career and Technology Education and PEP—with available JOBS funds for strengthening and expanding teen parent education programs.

Recommendation

The use of Job Opportunities and Basic Skills (JOBS) Title IV-A funds should be expanded, enabling local school districts to provide more support services for teen parents.

Implementation of this recommendation would be the responsibility of the new Department of Work Force and Economic Competitiveness, proposed elsewhere in this report.

TEA, DHS and the Comptroller's office plan to target four or five distressed school districts as well as poverty pockets within less distressed districts to design JOBS services appropriate to the area. Services

may include child care, transportation, tutorial services, guidance and counseling services, career counseling, mentor programs and on-the-job training based on the unique needs of participants and the local labor market.¹⁰

TEA and Comptroller personnel will be reviewing plans and program costs of target districts to determine the amount of funds the districts can certify for federal matching funds and the programs they intend to implement. Case studies will begin in January 1995. Under this plan, federal, state and local funds, as well as "match initiatives," will all be considered for funding. Any match funding attracted must be used for new programs. Private-sector participation will be sought in school-to-work programs.

Implications

Without spending additional state dollars, this recommendation would provide local school districts additional funding for programs aimed at keeping teens in school. It would enhance federal support of local districts through JOBS Title IV-A funds. Money could not be taken from school districts for savings, or Texas would lose the funds.

Teen parent welfare recipients who are potential adult recipients could be identified, trained and placed in the work force as cost-effectively as possible. Recognizing that not all teen parent programs are equally effective, services must be tailored to the population served. The cooperation of the proposed work force agency and the Texas Education Agency is essential.

Fiscal Impact

There would be no impact on the General Revenue Fund. All funds would be federal, state or local funds already in use plus federal funds, available but presently unused. TEA estimates using about \$3 million as matching funds in the pilot programs in the spring semester of 1995.

Fiscal Year	Gain/(Loss) in Federal Funds to Local School Districts	Change in FTEs
1996	\$10,000,000	0
1997	16,000,000	0
1998	16,000,000	0
1999	16,000,000	0
2000	16,000,000	0

Endnotes

- ¹ U.S. General Accounting Office, *Families on Welfare: Focus on Teenage Mothers Could Enhance Welfare Reform Efforts* (Washington, D.C., May 1994), p. 3; and Nancy Gibbs, "The Vicious Cycle," *Time* (June 20, 1994), p. 26.
- ² *Families on Welfare*, p. 3.
- ³ U.S. Department of Health and Human Services, "Job Opportunities and Basic Skills Training (JOBS) Program Information Memorandum," Washington, D.C., June 17, 1994.
- ⁴ 42 USC 681, *Social Security Act*, Part F, Sec. 482(a)(3).
- ⁵ Deborah L. Cohen, "Barriers to Ending Welfare Dependence Reported," *Education Week*, Extra Addition, July 13, 1994.
- ⁶ Department of Human Services, Program Budget and Statistics, *JOBS Expenditures*, October 14, 1994.
- ⁷ "Job Opportunities and Basic Skills Training (JOBS) Program Information Memorandum."
- ⁸ "When Welfare Works," *Los Angeles Times* (June 26, 1994), p. M4.
- ⁹ V.T.C.A., Education Code §21.114.

Endnotes *(continued)*

¹⁰ Memorandum from Ken Crow, Texas Education Agency, to Jason Cook, Texas Department of Human Services, June 15, 1994.

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Provide Incentives for Teenage Mothers to Complete High School

Teenage mothers in Texas who receive Aid to Families with Dependent Children (AFDC) should receive additional benefits to stay in school or sanctions if they drop out.

Background

Ohio, California, Colorado and Kansas have implemented programs to help keep teenage mothers in school by providing benefits or sanctions to promote school attendance. Ohio's model program, called LEAP (Learning, Earning and Parenting), is considered one of the best. LEAP intervenes early to help prevent young mothers from becoming long-term welfare recipients. The program is mandatory for pregnant girls and custodial parents under 20 who receive AFDC benefits. Non-participants lose a portion of their monthly AFDC allotment. These penalties also apply to those receiving assistance on someone else's case, usually the mother of a teenage recipient. All recipients must attend school leading to a diploma, General Educational Development (GED) certificate or adult basic education.

Teens who provide evidence of school enrollment receive a bonus payment in addition to their normal benefits. Students who do not attend an initial LEAP assessment interview or who fail to enroll in school have the bonus amount deducted from their AFDC checks. Those who exceed the allowed number of total absences but do not exceed the allowed number of unexcused absences receive neither a bonus nor a sanction, but are given an opportunity to provide evidence of "good cause" for unexcused absences—thus providing a reasonable lag between the month of attendance and the corresponding bonus or sanction.

Recommendation

Texas should implement a pilot project to encourage teenage mothers to complete high school by providing incentive bonuses based on school attendance and performance.

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Implications

The pilot project would help develop procedures for providing a model of how and where to implement this program in Texas. The Job Opportunities and Basic Skills (JOBS) program for teens, discussed elsewhere in this section, would provide additional support services to encourage teenage mothers to stay in school. Both pilots should be coordinated to develop the best methods to encourage Texas teens to stay in school.

Fiscal Impact

The most recent evaluations of Ohio's LEAP program show that 7 percent more students who were on LEAP graduated from high school than those who did not participate. Because of differences in grant amounts and opportunities for employment or additional training, Texas could show better results. Even at 7 percent, such a program could mean lifetime increases in earning power for those who complete high school.

About 65 percent of the teenage mothers in Ohio's LEAP program received bonuses and the remainder received sanctions. Based on that experience, and assuming a \$50 monthly bonus, Texas would incur the costs shown below for a pilot project affecting 1,000 teenage mothers. These estimates are based only on bonuses because of the additional costs of establishing sanctions in a state that now has no easy way to coordinate school attendance reporting and the receipt of AFDC. The pilot project could explore possible solutions to those administrative problems and the potential use of sanctions.

<u>Fiscal Year</u>	<u>Cost</u>
1996	\$500,000
1997	\$500,000
1998	\$500,000
1999	\$0
2000	\$0



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Establish a Guaranteed Prepaid Tuition Plan

The Legislature should establish a guaranteed prepaid tuition plan to increase postsecondary education opportunities for Texas residents.

Background

During the 1980s, tuition rates at public and private colleges across the country grew twice as fast as inflation.¹ Recent figures from the College Entrance Examination Board indicate that the tuition growth rate continues to outpace inflation.² Given these trends, families must begin saving for college expenses when their children are young.

Failure to adequately save for college now may bring higher costs in the future for both prospective students and the state. Although tax-exempt college savings bonds have become the most popular state-supported mechanism for college savings, parents are uncertain of the amount of money they will need when their children reach college age.

Students without the resources to pay for college may need financial assistance through grants and loans funded by the state. Although student loans are repayable, they carry significant costs associated with interest rate subsidies and high default rates (student loans are guaranteed—the federal government picks up the bill when a student defaults, dies or becomes disabled). Loan program costs may also reduce the amount of money available for grants that benefit the neediest students.

Students who borrow heavily for college may face years of loan repayments. This may discourage some students from obtaining postsecondary education, costing society the additional productivity and earnings that can result from additional education. Students also may forego careers such as teaching in favor of higher-paying jobs that make it easier for them to repay their loans. Such concerns indicate that a new approach is needed.

Prepaid Tuition Programs

Some states provide prepaid tuition programs to help families save for their children's college education. A prepaid tuition plan provides an incentive to parents that is not available through the existing college savings bond program: the state *guarantees* that the amount put aside today will cover tuition, regardless of what happens to higher education financing and fees in the future. Increased family savings will let the state direct more resources to its neediest students. For families who cannot afford to save, financial aid will remain essential to ensure access to higher education.

While the tuition guarantee makes these plans attractive, only eight states—Alabama, Alaska, Florida, Massachusetts, Michigan, Ohio, Pennsylvania and Wyoming—operate guaranteed prepaid tuition plans. Michigan, which pioneered this program, stopped accepting new purchasers after the Internal Revenue Service (IRS) ruled that the Michigan program's trust fund was not exempt from federal income taxes.

In recognition of the IRS ruling on the Michigan program, Florida created a plan structured differently from Michigan's. Florida asserts that its plan is an integral part of the state, not a separate entity. The program provides an essential government function to the residents of Florida and is backed by the full faith and credit of the state. Florida does not deny that current law requires the difference between the amount paid and its current value must be included in the beneficiary's gross income in the year it is redeemed. While proposed federal legislation would change this tax treatment by exempting any payment

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used exclusively to pay educational expenses, current law is clear on this matter—any income from an education savings account should be included in gross income.³

Beyond the IRS ruling, some experts expressed concern that Michigan's program underestimated future tuition costs, which could make the trust fund insolvent or force the state to spend additional funds to keep it sound. Prepaid tuition plans must be actuarially sound, and should be analyzed and reassessed at regular intervals to make sure that purchase prices are sufficient to meet future tuition rates. Actuaries also must anticipate the consequences of students who choose to delay their education, enroll less than full-time, or take a leave of absence from college for financial, academic or health reasons.

State-guaranteed prepaid tuition programs have had a significant consequence on savings for college beyond securing a guaranteed tuition rate. For example, a survey of Florida prepaid tuition contract holders revealed that nearly two-thirds of them had no specific savings plans for college prior to joining the plan.⁴ However, after purchasing a prepaid tuition contract, more than 43 percent of the participants secured additional savings plans to pay for costs such as books, supplies, housing, food and basic personal needs.

Providing Access to Higher Education

Although Texas institutions charge relatively low tuition rates compared to other states (tuition rates cover only one-sixth of actual costs), low-income students are not proportionately represented in Texas colleges and universities. While it may seem reasonable to assume that low tuition rates help ensure access for poor students, in practice this has not been the case. The cost of higher education is much greater than just tuition and fees; room, board and other living costs, for example, can be substantial.

In Texas, the Legislature determines tuition costs and sets maximum rates for student fees. The fees, set by each institution within prescribed limits, cost nearly as much as tuition. For example, during the 1994-95 school year, Texas students will pay an average \$840 in tuition for a full academic year (30 semester credit hours).⁵ Mandatory fees, which cover such things as building use and student services, are higher than those in most states and add an average of \$708 to the higher education bill.⁶

Other factors beside cost play a role in limiting access to higher education. Historically low graduation rates for disadvantaged students, inadequate academic preparation, a lack of college counseling and low levels of parental education all affect a child's educational expectations. None of these factors can be addressed solely through changes to tuition and student aid. Reforms of the public schools, greater incentives for student performance and access to adult literacy and education programs also are necessary to increase participation in higher education.

Existing prepaid tuition plans tend to benefit mainly middle- and upper-income families. Florida's initial plan was criticized for this pattern; during the first two years of Florida's program, white families accounted for 90 percent of the contracts sold, while only 3.5 percent went to black families. Only 13 percent of the families earned less than \$30,000 a year and 4 percent earned less than \$20,000.⁷ Florida has since developed a scholarship program to provide economically disadvantaged youth with prepaid tuition.

A major challenge in designing a prepaid tuition program is to structure the program to benefit all citizens. A poorly-designed program could be viewed as a state guarantee—and potentially a subsidy—primarily for upper-income families. Access to higher education for *all* citizens is critical to the development of a diverse, well-educated work force.

Florida's Prepaid Tuition Scholarship Program

The Florida legislature created the Prepaid Tuition Scholarship Program in 1990 to provide economically disadvantaged youth with prepaid tuition. Recognizing the tremendous need for the program and the

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state's inability to adequately fund it, the legislature opted to enact a requirement for a 50/50 match with private contributions. The private sector's response has been overwhelmingly supportive. About \$1.2 million was appropriated in 1990, and more than \$1.5 million in contributions were received. The 1994 legislative appropriation of \$1 million has been matched by pledges in excess of \$2 million.

The scholarship program, known as Project S.T.A.R.S. (Scholarship Tuition for At-Risk Students), encourages private contributions through an effective marketing theme, which stresses that donations are a "down payment" on a better social and business climate and a better-educated work force.⁸

Middle-school students must be economically disadvantaged and at risk of dropping out of school to be eligible for consideration. All students selected to receive a scholarship must agree to remain drug- and crime-free throughout their secondary education.⁹

Impact on Enrollment

A prepaid tuition program could have an impact on future college enrollment. For example, one-third of the estimated available openings in Florida's university system in the year 2000 have been sold through tuition prepayment contracts. Although Florida does not guarantee contract holders admission to the four-year university program of their choice, the state does guarantee all academically eligible students admittance to at least a community college. All students who successfully complete an associate's degree at a community college are guaranteed university admittance. University officials worry that there could be as many prepaid students preparing to enroll as there are openings.

Texas' college and university system can handle enrollment increases that may result from the purchase of prepaid tuition contracts. It is possible, however, that not all contract holders will be able to attend the college of their choice, even though they may meet the admissions standards. Future enrollment may be limited, especially at Texas' "flagship" institutions—The University of Texas at Austin and Texas A&M University—where enrollments are at or near capacity. A prepaid tuition program guarantees tuition, but does not give preferential treatment to participants; students would still have to compete on academic grounds.

Recommendation

- A. The Legislature should establish a guaranteed prepaid tuition plan, the Texas Tomorrow Fund, to enhance the educational opportunities of all Texas students.**

The Legislature should establish the Texas Tomorrow Fund to provide future Texas college and university students with the opportunity to prepay tuition and statutory student fees. The state should guarantee that prepaid tuition contracts purchased through the fund would always be worth a credit at a Texas college or university. The Texas Tomorrow Fund should offer two-year, four-year and "two-plus-two" contracts to purchasers. (A two-plus-two contract would allow a student to complete two years at a community college before transferring to a university.) While a contract would not guarantee a student admission to any college or university, any student could attend one of Texas' many community colleges.

As another recommendation within this report abolishes the office of State Treasurer, the Texas Tomorrow Fund would be administered by the Comptroller's office and would be self supporting—interest and application fees would pay for program operations. Private service providers, through contracts with the Comptroller's office, could provide marketing, actuarial, accounting, trustee, records administration, auditing and investment consulting services.

A governing board would be created, composed of the Comptroller and six other appointees who possess knowledge, skill and experience in higher education, business or finance. The Governor,

Lieutenant Governor and Speaker of the House would each appoint two members and the Comptroller would act as chair of the board. The board would establish the purchase price for tuition and fee contracts based upon actuarial recommendations and would have rulemaking authority for the administration of the fund. All funds collected through the program would be managed by the Comptroller's office.

Prepaid tuition and fee contracts through the Texas Tomorrow Fund could be purchased for the benefit of any Texas resident from birth through age 17. The purchaser (parent, grandparent, other relative, non-relative or organization) would not be required to live in Texas. Non-custodial parents residing in Texas could buy the contracts for their children living outside the state.

The Texas Tomorrow Fund would be flexible. A contract would be transferable to any sibling, step-sibling or half-sibling of the student for which it was purchased. Students choosing to attend a private college would receive payments equal to those they would have received had they gone to a public institution. This policy would continue the precedent established by the Tuition Equalization Grant (TEG) program that Texas independent colleges and universities operate in partnership with Texas public institutions to educate Texas residents. Contract purchasers should be provided the option to convert one plan to another with the beneficiary responsible for making up the difference among the value of the plans. Once a contract is purchased for a Texas resident student, that student would be guaranteed payment at in-state tuition and fee rates even if the student moves out-of-state. The program should grant students a 10-year period from the initially projected graduation year (not counting any military service) in which to use the benefits.

In the event of the death or disability of a student, the contract would be transferable to another beneficiary or would be refunded. If a student opts for a two-year or two-plus-two program, the balance of a four-year contract would be refundable. If a student receives a scholarship to cover tuition and fees (or a portion thereof), the unused benefits would be refunded. Similarly, if a student is able to complete the program in fewer than the estimated semesters (four for a two-year program and eight for a four-year or two-plus-two program), the balance of the contract would be refunded.

To make the program affordable to as many families as possible, several payment options would be offered, including lump-sum, annual, quarterly or monthly payments or in a five-year series of installments. The interest rate for the payments or installment options would be based upon actuarial recommendations. Once the payment is determined, however, the payment should be guaranteed to remain constant. To promote ease of payment and low processing costs, the state should allow purchases to be made through electronic funds transfers and employee payroll deductions.

The Texas Tomorrow Fund would begin accepting contracts on October 15, 1995, following approval by the Texas Legislature in 1995.

B. The Legislature should establish a scholarship program to benefit needy Texas students through a public/private partnership.

While a prepaid tuition program would provide a convenient way for many Texas families to save for college, it also should address the need to provide access for lower-income students. It should do so by creating a public/private fund to purchase tuition contracts for needy students. Initially, the state should appropriate \$1.5 million as a challenge grant to the state's business community, which would be asked to match (or exceed) the state's initial purchase. Contributions from individuals also should be sought. Provisions to ensure that each Texas region is equitably represented in the distribution of the scholarships should be developed.

Disadvantaged students who stay in school and graduate should receive the tuition contracts in a manner similar to the "I Have A Dream" program, where philanthropists have agreed to pay tuition for inner-city students who stay in school and receive their high school diploma. Some additional provisions for receiving this benefit should require students to graduate high school "on-time" (without failing a grade); earn a minimum grade-point average; maintain a good attendance record; and not be adjudicated for any drug offense or crime that is a felony.

Implications

The Texas Tomorrow Fund would provide Texans with the opportunity to ensure against rising tuition rates. Texas residents could purchase tuition contracts today to use in the future with the assurance that the contract would cover tuition and fees, regardless of how they may increase.

The Texas Tomorrow Fund should be reviewed by legal staff and submitted to the IRS to obtain a tax-exempt status ruling. However, the program can begin operations before such a ruling is given. In creating the plan, the state should declare it to be an integral part of state government, as in Florida.

The Texas Tomorrow Fund should be seen as one element of an overall state commitment to providing access to higher education in Texas. Additional programs for disadvantaged students still would be required. This program would make a college education more affordable to low- and middle-income families who can participate. In combination with the public/private partnership scholarship program, the Texas Tomorrow Fund could reduce the demand for other types of financial assistance, notably guaranteed student loans, and make more money available for other student assistance programs.

A guaranteed prepaid tuition plan could influence future legislative decisions on tuition rates. If the Legislature raised tuition to a rate above the amount assumed by the plan's administrators, the state would have to pay the difference.

Fiscal Impact

The Texas Tomorrow Fund would be self-supporting. Application fees and a portion of the interest income would be used to cover administrative costs. A state appropriation would be required to set up the matching scholarship program.

Fiscal Year	Cost to the General Revenue Fund	Change in FTEs
1996	\$1,500,000	+8
1997	1,500,000	+8
1998	1,500,000	+8
1999	1,500,000	+8
2000	1,500,000	+8

Endnotes

- ¹ Robert K. Landers, "What's Behind High College Price Tags," *Congressional Quarterly's Editorial Research Reports* (May 19, 1989), p. 279.
- ² "College Tuition Still Climbing," *USA Today* (September 28, 1994), p. D-1.
- ³ David Williams II, "Taxation of Prepaid Tuition Plans," in *Prepaid College Tuition Plans: Promise and Problems*, ed. Michael A. Olivas (New York: College Entrance Examination Board, 1993), p. 64.

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Endnotes (continued)

- ⁴ William Montjoy, "State Prepaid Tuition Plans: Designing a Successful Program," in *Prepaid College Tuition Plans: Promise and Problems*, ed. Michael A. Olivas (New York: College Entrance Examination Board, 1993), pp. 45-46.
- ⁵ Texas Higher Education Coordinating Board, *Results of Annual Institutional Surveys* (Austin, Texas) June 1994.
- ⁶ *Results of Annual Institutional Surveys*.
- ⁷ South Carolina Commission on Higher Education, *An Examination of Types of College Savings Programs* (Charleston, South Carolina, February 27, 1992), p. 11.
- ⁸ Florida Prepaid College Foundation, "The 1993 Project S.T.A.R.S. Report," Tallahassee, Florida, p. 2.
- ⁹ "The 1993 Project S.T.A.R.S. Report," p. 3.



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Improve Texans' Literacy Levels

The Legislature should establish strategies to raise the literacy level of adult Texans to improve their quality of life and employment opportunities.

Background

Six million adult Texans—more than half the adult population—are unable to read a bus schedule, write a letter to correct a credit error, or use a calculator to solve a simple arithmetic problem, according to a national survey released in September 1993.¹

Half of "poor or near poor" Texans rank in the lowest of the five literacy levels defined by the National Adult Literacy Survey (NALS). These individuals, according to NALS, are far more likely to receive food stamps, live in poverty and rely on non-print sources for information.

Also, literacy experts believe adults with limited literacy skills are less likely than more literate adults to read to their children or have reading materials in the home. These children are susceptible to repeating the cycle of literacy deficiency and limited skills.

Generations of human capital are at risk. Texas' social and economic future will suffer if large numbers of Texans cannot read. Adult illiteracy carries a price tag in Texas of \$17 billion in lost income and taxes, welfare and unemployment payments, training, crime and incarceration.²

Television as a Literacy Tool

Telecommunications as a tool for honing literacy skills remains largely underused. According to one estimate, 97 percent of American homes are equipped with a TV set and 75 percent of them have a VCR. A literacy campaign initiated by the British Broadcasting Corporation united 80,000 tutors and 100,000 learners in the United Kingdom between 1975 and 1978.³

Television can overcome barriers to adult literacy, according to a study conducted by the Adult Media Literacy Project (AMLP). The study revealed that 90 percent of adults in need of basic education are not being served and that "distance learning" is particularly suited to meet their needs. Television can reach a population that otherwise would not be served.

The study also found that television increases educational opportunity without a corresponding jump in cost, raises the quality of instruction faster than hiring more teachers, and extends the reach of education.⁴ The Ford Foundation has given AMLP \$3 million to develop four literacy demonstration projects through television.⁵

Kentucky offers one of the best examples of successful televised adult literacy instruction. The Kentucky Network (KET) produces literacy, math and General Educational Development (GED) videos and accompanying workbooks, many of which are distributed nationwide. Texas Education Agency (TEA) provides these GED videos to all public broadcasting stations (PBS) in Texas.

The Louisiana PBS literacy coordinator estimates that broadcasting the KET literacy tapes generates about 6,000 inquiries each year.⁶ KET reports that 150,000 students nationwide are enrolled in its home study courses, and more than 2 million individuals have been involved in the home study courses since 1975.⁷

DRAFT

These videos often spur community literacy centers to link pupils to other resources. For example, Indiana's director of adult education praised the program as a recruiting tool for traditional literacy training. In West Virginia, the library commission furnished the videos for each public library and cable companies volunteered to broadcast the programs. A West Virginia man began viewing the tapes at home. His wife and their children joined the exercise, then the grandfather. Soon aunts, uncles and cousins were ordering workbooks provided free by the state's library commission.⁸

Texas cable broadcasts reach about 3.1 million subscribers in 900 communities. From 5.5 million to 6 million homes in Texas have the capability to view cable.⁹ Many Texas schools, which are often sites for night adult literacy classes, have television sets in the classrooms.

Literacy Instruction and Assessment

Volunteers are the backbone of the literacy effort. Literacy Volunteers of America and Laubach Literacy Action have trained almost 150,000 volunteers, and in 1992 taught some 200,000 people.¹⁰ The Texas Center for Adult Literacy and Learning (TCALL) at Texas A&M University provides information to more than 500 literacy organizations. TCALL is the paramount source of adult literacy information in Texas and of the five-state region of the Southwest.

Texas lacks a statewide system for assessment of literacy skills, although literacy experts believe an evaluation of an individual's English deficiency should accompany each pupil. In addition, the considerable mobility of some parts of the Texas population interferes with class attendance and recordkeeping, requiring a reevaluation with each relocation. Some literacy students find this so daunting they give up.

Recommendations

- A. The Texas Center for Adult Literacy and Learning (TCALL) should evaluate literacy instruction videos and encourage cable companies to broadcast the best literacy programs, provide the Texas Education Agency with literacy tapes to distribute to public school districts, and explore the possibility of becoming one of the Adult Literacy Media demonstration projects funded by the Ford Foundation.**

TCALL should evaluate basic literacy instruction videos with the goal of identifying the highest quality literacy broadcasts available.

Cable companies should broadcast these videos with a supplemental tag line offering the TCALL toll-free number where the viewer can obtain information about programming, workbooks and local literacy providers.

Literacy providers would play the videos for adult students, and educational service centers could promote the broadcasts through the schools.

- B. The Legislature should encourage universities that have approved teacher education programs to include adult literacy or adult English as a Second Language tutoring as part of their teacher preparation programs.**

This could alleviate the shortage of literacy instructors and provide education students with instructional experience in observation training. Texas' Centers for Professional Development and Technology offer internships for teacher certification and could channel student literacy teachers to the network of private and volunteer agencies and organizations in communities where the colleges are located.

Texas Education Agency (TEA) should encourage the literacy student and the student teacher to sign a contract, committing the pupil to attendance and completion of a designed program. Literacy training is more successful when the pupil fulfills a commitment to a required schedule.

- C. The Legislature should instruct TCALL to appoint a task force to evaluate existing literacy assessment programs and establish a pilot program.**

To develop a statewide program, the Legislature should form a consortium of statewide literacy providers such as Adult Basic Education, correctional facilities, English as a Second Language and private literacy training groups to address literacy needs and establish a statewide standard.

The goal would be to produce an individual assessment that could be passed on to different literacy providers in the form of a "portfolio" as a portable explanation of the learner's proficiency.

- D. The Legislature should encourage state employees to participate as volunteer literacy instructors.**

Implications

Literacy broadcasting is an efficient and quick way to reach a large and diverse population, linking viewers to literacy providers. The television classroom offers a unique approach for the individual reluctant to join a formal class.

These efforts must be part of a broader approach to reducing adult illiteracy through improvements in public education, employment training efforts and, ultimately, improving Texas' human resources.

Fiscal Impact

The broadcast rights fee for the Kentucky Network tapes, duplication costs, workbooks, expanding the literacy toll-free phone line, adding one person to help with the phone line and program expansion would cost about \$110,000 a year. This would be paid to TCALL as part of the statewide share of the literacy program funded by the Social Security Act. If the federal government does not approve the plan, this program should be funded with general revenue.

Endnotes

- ¹ U.S. Department of Education, National Center for Education Statistics, Office of Research and Improvement, *Adult Literacy in America: A First Look at the Results of the National Adult Literacy Survey* (Washington, D.C., September 1993), pp. 69-103.
- ² Texas Literacy Council, *Developing Human Capital: A Five-Year Plan for Enhancing Literacy in Texas* (Austin, Texas), p. 2.
- ³ The Ford Foundation, *Television and Adult Literacy: Potential for Access to Learning for an Unserved Population*, by Marian L. Schwartz (New York, New York, June 1992), p. 47.
- ⁴ *Television and Adult Literacy*, pp. 63-66.
- ⁵ Interview with Marian L. Schwartz, project director of Adult Literacy Media Project, Educational Development Center, New York, New York, October 4, 1994.
- ⁶ Interview with Lucille McDowell, literacy coordinator, Louisiana Public Broadcasting System, Baton Rouge, Louisiana, September 22, 1994.
- ⁷ *Television and Adult Literacy*, pp. 27-28.
- ⁸ Interview with Donna Carver, director of services, West Virginia Library Commission, Charleston, West Virginia, October 13, 1994.
- ⁹ Interview with Bill Arnold, Texas Cable TV Association, Austin, Texas, October 11, 1994.
- ¹⁰ U.S. Congress, Office of Technology Assessment, *Adult Literacy and New Technologies: Tools for a Lifetime* (Washington, D.C., July 1993), p. 103.



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Create a Statewide System of Adult Learning Labs for Public Assistance Recipients

The Legislature should create Educate Texas, a statewide system of adult learning labs with child care facilities for recipients of Aid to Families with Dependent Children, using state and local school funds and matching federal funds.

Background

Aid to Families with Dependent Children (AFDC) is a federal and state-funded program for needy families with children. The Job Opportunities and Basic Skills (JOBS) program, created by the federal Family Support Act of 1988, offers AFDC clients education, training, and support necessary to gain employment and become economically self-sufficient. The Texas Department of Human Services (DHS) administers both AFDC and JOBS.

Federal regulations require states to enroll a certain percentage of AFDC clients in the JOBS program each year. If these goals are not met, the federal matching rate for JOBS drops from 64 percent to 50 percent. In the last two years Texas nearly lost this enhanced funding, and faces the possibility this year of losing between \$5 million and \$10 million of the \$33 million in annual federal aid.¹

Adult Basic Education Needed by Many

One of the principal barriers to employment facing many AFDC clients is a lack of education. In a June 1990 sample group of 12,000 Texas AFDC clients, 46 percent had not obtained a high school diploma or a General Educational Development (GED) certificate. Among current heads of AFDC households, the figure is closer to 52 percent.² Thirty-four percent had reached high school but not graduated, 13 percent had not gone beyond middle school, and 5 percent had only some elementary school education.³ Most employers require at least a high school diploma or GED. One of the top priorities of the JOBS program is to ensure that AFDC clients reach this minimum level of education, but JOBS lacks the resources to serve all those who need basic education.

DHS has a \$2 million contract with the Texas Education Agency (TEA) to provide adult education and literacy services for JOBS clients. Adult education programs are also run in Texas by at least 600 school districts and community colleges. The programs include basic skills training in English, computers and literacy as well as life skills and GED preparation. Currently, more than 80 Texas school districts have child care facilities for student parents or labs for students enrolled in child development and intergenerational care classes.

Most of the adult education and literacy programs in school districts are funded through local cooperatives administered through TEA, using a variety of state and federal literacy funds, Carl D. Perkins federal vocational funds, state vocational funds and local funds. According to a study of adult education programs in Texas commissioned by TEA, school districts and community colleges pay for 44 percent of adult education programs through in-kind support such as building usage, utilities, custodial services, maintenance, duplicating services and occasional staffing.⁴

For example, in the El Paso Independent School District, the adult education program uses an otherwise vacant elementary school building, and the school district pays for four full-time custodians, utilities, maintenance, mail services, furniture and equipment. This in-kind support is not currently considered to

be state spending on adult basic education and literacy, and thus does not draw down additional federal funds.

Job-Retention Skills and Child Care Are Also Critical

Another barrier to employment for many AFDC recipients is an absence of "employment readiness" skills that help a person keep a job. Studies show that more people lose their jobs not because they lack specific job skills or knowledge but because they are consistently absent or late for work, have poor work habits, are unable to get along with fellow workers or have poor personal grooming. JOBS provides classes in these skills, but again, it cannot serve all eligible AFDC clients because of insufficient resources.

JOBS also provides child care, transportation and other support services that enable AFDC clients to attend adult education classes, job training and work. When available child care and support service funds are exhausted, AFDC clients are placed on waiting lists.

About 47 percent of Texas' current JOBS clients receive adult education, parenting, life skills and GED preparation, but no actual job training or search services. This group accounts for about 42 percent of JOBS child care and other support services.

The State Auditor's Office (SAO) pointed out in its 1994 audit of the JOBS program that child care funds are spent inefficiently in Texas. The Child Care Management System (CCMS) often pays for 40 hours of child care per week for clients training 20 hours or less. From March 1992 through January 1993, child care expenditures through CCMS totaled \$42.5 million. Annual client participation hours for that period totaled 11.2 million. At the \$1.56 hourly rate, these client hours should have required \$17.5 million in child care costs.⁵ Instead, CCMS spent more than twice as much on child care than was required, according to the SAO audit.

Recommendation

The Legislature should create Educate Texas, a statewide system of adult learning labs with child care facilities in public schools and community colleges for clients of Aid to Families with Dependent Children (AFDC), using state and local school funds to draw matching federal emergency assistance and Job Opportunities and Basic Skills (JOBS) child care funds.

The Texas Education Agency, the Texas Higher Education Coordinating Board and the new work force agency described elsewhere in this report should work with school districts and community colleges to create on-site adult education learning labs and child care facilities. These facilities could significantly increase the number of AFDC clients receiving adult education services. Educate Texas could enable thousands of AFDC clients to train for their General Educational Development (GED) certificate and could shorten the wait for openings into the JOBS remedial education program, without increasing state general revenue expenditures.

The initial interview for enrollment in Educate Texas would be conducted at the time of JOBS application. A case manager would determine the client's need, goals and eligibility for services. If educational needs were identified during the JOBS interview, the client would be referred to the Educate Texas program. As with the California GAIN (Greater Avenues to Independence) program, Educate Texas would recognize and attack educational deficiency as a principal barrier to employment.

The client would have one year from entrance into Educate Texas to complete the program and obtain a GED. On completion, these individuals would be referred to JOBS for specific job training and employment referral services. Educate Texas would allow Texas' JOBS program to serve only clients in need of job training and employment services.

Educate Texas would provide the following basic emergency services: English skills, literacy training, GED preparation, parenting skills, family dynamics and family responsibility, family counseling and case management, child care and employment readiness training (such as work ethics or interview skills).

One funding source for this program would be Title IV-A of the federal Social Security Act, which provides uncapped federal emergency assistance for one year, matched dollar for dollar with state or local funds. Each state defines the conditions of an "emergency." JOBS child care funds, which currently have a federal matching rate of 64 percent, would also be used.

Unencumbered state funds, local funds and donated funds and equipment could be used to draw down federal Title IV-A Emergency Assistance funds and JOBS child care funds for AFDC clients in the Educate Texas program.

Implications

The agency administering the JOBS program at the state level (the Texas Department of Human Services or the new work force agency proposed elsewhere in this report) would have to approve the creation of Educate Texas at the state level. In addition, an amended Texas Emergency Assistance Plan would require federal approval. If the plan did not receive federal approval, Educate Texas could proceed with designated state and local funds to draw down Texas' unused JOBS money. New funding (state, local and federal JOBS matching funds) would be used entirely for the increase in the number of JOBS clients enrolling in Educate Texas. Federal regulations require that these funds be used entirely for new programs or enhancement of existing JOBS programs.

At the local level, work force development boards would have to select Educate Texas as one of the ways of serving AFDC clients in their area. Educate Texas would be optional for local school districts and community colleges. Districts involved in adult education programs could apply for matching funds, using existing in-kind contributions.

Educate Texas could be enhanced by learning labs using a statewide television broadcasting system of basic literacy, math literacy, English as a Second Language classes and GED preparation, recommended in another part of this report.

By diverting future JOBS clients into Educate Texas for education and related services, support services for these clients could be funded through independent (and uncapped) federal sources—Title IV-A Emergency Assistance and JOBS child care. This would allow 42 percent of JOBS support service funds to be reallocated to expand JOBS services for clients who are ready for job training and employment search.

Educate Texas clients would be included in JOBS enrollment. This would expand the Texas JOBS program to include an estimated 47 percent more clients in the target population served, and should enhance the state's effort to reach federally required levels of participation.

Fiscal Impact

This recommendation would have no impact on state general revenue funds. It would increase funds available to local school districts and community colleges without requiring them to spend additional money.

Local school district and community college funds already being spent would be matched dollar for dollar with federal Emergency Assistance, or matched 64 percent with federal JOBS funds to expand current adult education efforts and child care services.

Work Force

JOBS program gains the most by being able to serve 47 percent more clients with no budget increase. In addition, about 42 percent of current child care expenditures would be reallocated to more job-ready AFDC recipients.

Assumptions for the funding estimates below are based on surveys sent out to 12 of the state's 58 adult education cooperatives. The public school fund base is estimated at \$9.3 million, the community college fund base is estimated to be \$1.2 million, other adult education and literacy centers in publicly owned facilities have a fund base estimated at \$720,000, and there is an estimated \$2.4 million in other funds. Other assumptions include an overall federal matching rate of 50/50, a 100 percent AFDC/JOBS participation rate, which covers new JOBS/AFDC clients entering the Educate Texas program only; and a 15 percent program administrative cost.

Fiscal Year	Local School/College Fund Base	Gain in Federal Funds	15% Administrative Costs*	Net Gain in Federal Funds for Adult Education Cooperatives**
1996	\$13,585,000	\$ 6,793,000	\$1,019,000	\$ 5,774,000
1997	13,585,000	13,585,000	2,038,000	11,547,000
1998	13,585,000	13,585,000	2,038,000	11,547,000
1999	13,585,000	13,585,000	2,038,000	11,547,000
2000	13,585,000	13,585,000	2,038,000	11,547,000

* Administrative costs are split between Texas Department of Human Services and Texas Center for Adult Literacy and Learning, Texas A&M University, Department of Education.

** Local governmental entities.

Endnotes

- ¹ Interview with Kenneth Lyles, Department of Human Services, Austin, Texas, February 22, 1994.
- ² Texas Department of Human Services, *Demographic Profile of AFDC Caretakers* (Austin, Texas, August 1993), p. 10.
- ³ *Demographic Profile of AFDC Caretakers*, p. 10.
- ⁴ Bureau of Business and Government Research, Midwestern State University, *A Report of Adult Education Funding in Texas* (Austin, Texas, August 1992), p. 39.
- ⁵ Office of the State Auditor, *An Assessment of the JOBS Program* (Austin, Texas, March 1994), pp. 23-24.



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Establish a Permanent "Rainy Day" Account for Smart Jobs

The Legislature should establish a permanent "rainy day" account within the Smart Jobs fund to help ensure the fund's solvency in years when state unemployment insurance funds are unavailable.

Background

In 1993, the Legislature created Smart Jobs, a customized job-training initiative to be administered by the Texas Department of Commerce. Smart Jobs replaced the Work Force Development Incentive Program, which was supported with general revenue.

The Smart Jobs program encourages companies to offer training for existing employees that would position them for better paying jobs, and to hire and train new employees for certain high-wage jobs. If existing employees receive training to upgrade their skills, the training must result in at least a 10 percent increase in wages. If new jobs are created, the jobs must meet certain statewide high-wage standards. Smart Jobs will pay up to 50 percent of businesses' costs for this training. In fiscal 1994, 74 businesses applied for training grants through Smart Jobs. Thirty-three companies were awarded funds to train a total of 2,738 employees at a cost to the state of about \$2.7 million.¹

To pay for the Smart Jobs program, the Legislature created a holding fund into which is deposited one-tenth of 1 percent of Texas' total taxable wages. In years when the state Unemployment Insurance (UI) Trust Fund exceeds its floor level—an amount set at either \$400 million, or 1 percent of the state's total taxable wages for that year, whichever is greater—money in the holding fund becomes available for the Smart Jobs program. In fiscal 1994, the UI Fund balance fell below this floor level; consequently, Smart Jobs received no new revenue other than interest earned by money remaining in the fund.

In fiscal 1995, the Smart Jobs program has a budget of \$4.5 million. Because of a shortened collections year and a need to repay start-up costs, Smart Jobs should receive about \$30.3 million for fiscal 1996, provided the trust fund is above the floor level. The fiscal 1997 estimate for the Smart Jobs holding fund is \$58.3 million.²

Smart Jobs' funding system is inherently weak, simply because new funding will be unavailable in years when the fund is needed the most. In years of high unemployment, due to the high demand for unemployment insurance benefits, the UI trust fund balance will fall below its floor. According to Texas Employment Commission data, if the Smart Jobs fund had been created a decade earlier, in six of those years—1983 through 1988—no appropriation would have been made to the fund.³ Although Texas is witnessing an upswing in business activity, there will be years of economic downturn. In such years, the demand for job training will increase, and no Smart Jobs aid will be available under the current funding plan.

The Bureau of Business Research of the American International College recently surveyed a number of chief executive officers across the country on factors influencing relocation decisions. The availability of a skilled labor force ranked highest, ahead of traditional recruitment incentives such as tax abatements, urban renewal efforts and taxes.⁴ The survey results highlighted the importance of job training for Texas' future economic development. The Smart Jobs fund should be put on a more sound footing, not so vulnerable to the effects of changing economic conditions.

Recommendation

The Legislature should establish a permanent "rainy day" account within the Smart Jobs fund to help ensure the availability of funds in years when state unemployment insurance funds are unavailable.

TPR recommends that the Legislature institute an annual spending cap of \$40 million for the Smart Job program. In years in which dedicated funds exceed \$40 million, money above this level should be set aside for a permanent "rainy day" account maintained within the Smart Jobs fund. This would be an interest-bearing account, with all earned interest dedicated to the fund. In years in which dedicated funds fall below \$40 million, money from the "rainy day" account could be used to make up the difference.

The Legislature could subsequently adjust the spending cap to reflect changes in state training needs and the amounts being received by the fund.

Implications

This recommendation would provide funding for Smart Jobs in years in which the Unemployment Insurance (UI) fund is not solvent. The spending cap level of \$40 million should be adequate to fund expected training needs for the immediate future.

Fiscal Impact

There would be no impact on general revenue.

Endnotes

- ¹ Texas Department of Commerce. "Smart Jobs Funding Awards/Goals for FY 94." Austin, Texas, October 4, 1994. (Computer printout.)
- ² Interview with Mike Wheeler. Texas Employment Commission, Austin, Texas, October 28, 1994.
- ³ Texas Employment Commission. "U.C. Trust Fund History." Austin, Texas, July 11, 1992. (Computer printout.)
- ⁴ Bureau of Business Research, American International College, *What Top Firms Want from Municipalities* (Springfield, Massachusetts, May 1994), p. 1.

Provide Emergency Cash Assistance to Families in Crisis Situations

The Texas Department of Human Services should seek funding for a demonstration project to provide emergency cash payments for families at risk of becoming welfare recipients.

Background

Poor working families often are unable to pay for emergency expenses such as unexpected medical bills, an unanticipated rent increase or a major car breakdown. Cash payments to cover emergency expenses caused by threat of an eviction or other loss could prevent many families from entering the welfare system.

The Social Security Act allows states to operate an emergency assistance program if the assistance is necessary to avoid the destitution of a child or to provide living arrangements in a home for a child.¹ Some states use this approach to divert potential welfare recipients and keep families intact. Emergency assistance programs provide cash to families who receive Aid to Families with Dependent Children (AFDC) or to those at risk of becoming dependent on AFDC. Cash payments may cover housing, utilities, child care, housing security deposits, repair of household heating or cooling systems or plumbing expenses, moving expenses or car repairs. Some states provide emergency cash for cases of domestic violence or disasters.

New York provides a one-time cash assistance benefit to AFDC recipients and those at risk of becoming AFDC clients for basic needs involving housing, child care or utilities. This program has been in effect since the 1970s but has never been evaluated.²

Utah provides an annual one-time cash assistance payment for emergencies: for example, \$300 for rent, \$500 for a mortgage payment, \$200 for utilities. In fiscal 1993-94, the first year of operation, Utah's demonstration program paid out \$251,700 to serve 959 cases.³

Montana's prevention proposal is a once-in-a-lifetime cash payment for up to three months' assistance for families who might otherwise become AFDC recipients. The benefit is conditional on an agreement. If the family eventually goes on AFDC, it must agree to give up two months' payments for every month of emergency cash assistance the family receives. Also,

AFDC will provide up to three months' assistance one time if an AFDC recipient obtains employment and goes off AFDC.⁴

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Recommendation

The Texas Department of Human Services (DHS) should seek funds for a demonstration program to determine whether providing emergency cash for families in crisis situations could divert potential AFDC clients.

If the demonstration project receives funding, DHS should locate the project in high-employment areas. The project could save the state money provided that employment exists for applicants whose emergencies might otherwise result in their winding up on AFDC.

Implications

This program would require the development of guidelines to determine at the time of application which AFDC eligibles would be appropriate. The family's work history and ability to fulfill the 12-month obligation would be major considerations. DHS would need to study whether the emergency grant could be increased to include the whole family, thus ensuring cost-effective tracking of all individuals in a case.

Fiscal Impact

The emergency assistance grant level was assumed not exceed 25 percent of the grant for a year—in fiscal 1994, about \$380. The following estimate assumes that the state's share of the AFDC grant for an adult only would be used to fund the emergency assistance grant.

Fiscal Year	State Savings
1994	\$0
1995	0
1996	0
1997	0
1998	0

Endnotes

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- ¹ U.S. House of Representatives, Committee on Ways and Means, *1993 Green Book: Overview of Entitlement Programs* (Washington, D.C., 1993), pp. 650-654.
 - ² Interview with Robert Sharkie, program manager, New York Department of Human Resources [city], August 3, 1994.
 - ³ Interview with Steve Hillabrant, manager of support services, Utah Department of Human Resources [Salt Lake City, Utah?], August 5, 1994.
 - ⁴ Interview with Penny Robbe, program manager, Montana Department of Services and Resources, Austin, Texas, August 10, 1994.



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Increase Funding for Mental Health Care for Children and Families

The Legislature should finance mental health services for the Texas Department of Mental Health and Mental Retardation through the use of the federal Emergency Assistance Program in Title IV-A of the Social Security Act.

Background

The Texas Department of Mental Health and Mental Retardation (TxMHMR) develops and coordinates services for the mentally ill. The severity of the children's mental illness and the growth in the number of children needing services has placed enormous demands on the service system.

TxMHMR has budgeted \$25 million for children's mental health services for fiscal 1995 to serve about 30,000 children. Services include needs assessment, medication-related services, crisis resolution, day treatment, family services, therapeutic foster and group care, substance abuse treatment and school-based services. The funds are distributed to the mental health community centers through an interagency community management team.

Emergency Assistance Program

The Emergency Assistance Program in Title IV-A of the Social Security Act is a federal assistance program that could be used to fund mental health services. States are beginning to turn to the federal government for more help under this program. Although this program has traditionally been used by states as a supplemental or catastrophic income maintenance program, at least two states—Colorado and California—have begun claiming Emergency Assistance for mental health services.¹

The federal Emergency Assistance statute allows states great latitude in defining an emergency, the eligibility limits of the group to be served and the services to be provided to eligible persons. These funds provide assistance in emergency situations to youth and their families. The federal government pays 50 percent of the cost of maintenance, services and administration.

In October 1993, Colorado began to use Emergency Assistance for mental health care of children ineligible for Medicaid under an approved state plan that defines an emergency as the removal of a child from home into publicly funded care or supervision.

Children enter the Colorado mental health system through hospitals or community mental health centers. If ineligible for Medicaid, they are screened for Emergency Assistance eligibility. Most claims are made for children entering expensive institutional care, rather than those going into community or in-home services. California's current definition targets families which have children suffering from mental illness.

California has proposed a new, expanded definition of an emergency which would cover any child at risk of removal from the home due to a family member's serious mental disorder or emotional disturbance. This would allow Emergency Assistance eligibility in cases where a significant adult in the family is in need of treatment for mental illness and the child is threatened with removal from the home.

Both Colorado and California limit Emergency Assistance eligibility to persons not eligible for Medicaid. Both states have high income thresholds (\$92,000 per year in California and \$75,000 per year in Colorado). A high family income threshold makes most children eligible. Without Emergency Assistance,

both states would be serving—at state expense—all of the families they serve under the Emergency Assistance program. The definitions of emergency technically coincide with state statutes defining the mental health service population. The state agencies continue to use the same mental illness assessment tools they used prior to Emergency Assistance implementation. Their goal is to achieve federal funding support without increasing the service population, thereby enabling them to provide a more adequate service mix.

Texas has implemented an Emergency Assistance program administered by the Texas Department of Protective and Regulatory Services (DPRS), in which the definition of emergency is the risk of abuse or neglect of a child. Texas could amend its Title IV-A plan to include Colorado's or California's definition, thereby extending the program to mental health.

Determining how many persons now served by TxMHMR would be eligible under the new Emergency Assistance definition depends on exactly how the definition is written (and whether it applies to adult mental illness or only children), the percentage of TxMHMR caseloads that are families with children (childless adults are not eligible), the income test (DPRS uses a limit of \$63,000 per year) and the speed and consistency of implementation.

Recommendation

The Texas Department of Mental Health and Mental Retardation (TxMHMR) should enter into an interagency agreement with the Department of Human Services (DHS), the responsible state agency for Title IV-A, to amend the Title IV-A State Plan to include mental health emergencies under the Emergency Assistance program.

To realize new revenue, it would be necessary for Texas to amend its Title IV-A state plan to include mental health emergencies. It would be necessary to implement the program statewide simultaneously and to provide a consistent set of services statewide, on an entitlement basis, to all persons meeting the state's designated eligibility criteria.

In addition, it would be necessary for DHS to delegate much of the administration of mental health emergency assistance to TxMHMR and its local operatives. TxMHMR would deliver (certify) the non-federal expenditures on which the federal Title IV-A claims would be based. DHS would retain final eligibility decision responsibility, as was done when the Department of Protective and Regulatory Services initiated the Child Welfare Emergency Assistance Program.

Local community centers should be given 66 percent of all additional Emergency Assistance funds collected to cover administrative costs and give them an incentive to administer the Emergency Assistance program.

Implications

By including children's mental health services in the Emergency Assistance program, the current amount of state funds could be matched to receive additional federal funds. The community also would receive additional federal funds. Under this recommendation, the state and the communities gain additional funds to meet the growing needs of children.

Fiscal Impact

The TxMHMR fiscal 1995 budget contains almost \$25 million in general revenue for children's mental health services. These services were reduced to account for children who may be receiving Medicaid. While most of these funds would be sent to the community, the state would keep 34 percent.

About 15 percent of the Emergency Assistance funds would be needed to cover the cost of administering the program, including eligibility determination and documentation, accounting, data management, personnel staffing and training.

The net savings for the biennium would be \$3.2 million, and local community centers would see a gain of \$2.6 million. To achieve certifiable savings, appropriations to TxMHMR would have to be reduced.

Fiscal Year	Savings to the General Revenue Fund	Cost to the General Revenue Fund	Net Savings to the General Revenue Fund	Additional Local Revenue	Change in FTEs
1996	\$1,289,000	\$194,000	\$1,095,000	\$ 635,000	0
1997	2,578,000	387,000	2,191,000	2,063,000	0
1998	2,578,000	387,000	2,191,000	2,063,000	0
1999	2,578,000	387,000	2,191,000	2,063,000	0
2000	2,578,000	387,000	2,191,000	2,063,000	0

Endnotes

¹ Texas Comptroller of Public Accounts, *Recommendation to Improve Non-State Funding for State Public Assistance*, by the Institute for Human Services Management (Austin, Texas, October 14, 1994), p. 1. (Consultant's report.)



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Increase Federal Funding for Chemical Dependency And Treatment Services

The Legislature should use federal funding under the Emergency Assistance Program in Title IV-A of the Social Security Act to finance chemical dependency services for the Texas Commission on Alcohol and Drug Abuse.

Background

The Texas Commission on Alcohol and Drug Abuse (TCADA) provides an array of chemical dependency prevention and treatment services, including community-based outpatient and residential programs and services within corrections facilities. The demand for prevention and treatment services has risen steadily the last several years, but funding has not kept up with this demand. In its 1996-97 appropriation request, TCADA estimated that, with its projected level of spending, only a small percentage of Texans in need of its services would be reached.

TCADA receives the majority of its funding from the federal government for chemical dependency prevention and treatment services. TCADA's fiscal 1995 budget is more than \$180 million, of which the federal share is 53 percent, about \$96 million.¹

Federal funds supporting TCADA programs are either "capped" or discretionary. In capped programs, the funding level can only be a certain amount regardless of TCADA's demonstrated needs, while in discretionary programs, TCADA must compete with other states for a limited source of funds, available only for a limited period.

Health and human services agencies in other states, including those with chemical dependency programs, are beginning to seek funding from federal entitlement programs to give them a more stable and expansive funding base. Two federal entitlement programs that have substantial potential for TCADA programs are the Emergency Assistance (EA) program in Title IV-A of the Social Security Act and the Title XIX Medicaid Program.

Emergency Assistance Program

Since its enactment in 1968, EA mainly has been used by states as a supplemental or catastrophic income maintenance program. Emergency Assistance funds provide help in emergency situations for children and adolescents and their families.

The definition of an "emergency" in Texas' Emergency Assistance plan, which determines what programs may receive federal EA assistance, does not include chemical dependency; no other state's plan does. Even so, the federal statute on EA grants states a great deal of flexibility in defining emergencies, the eligibility limits of the group to be served and the services to be provided. In recent years, several states have received approval to define emergencies more broadly, thereby increasing their federal funding. In California, for instance, Emergency Assistance is available to youths at risk of removal from their homes because of behavioral problems.²

Some of TCADA's chemical dependency services could be paid through Emergency Assistance by amending the state's Title IV-A plan. An emergency could be defined as a situation in which a child is at risk of removal from the home because of his or her own or an adult family member's chemical dependency. The amended definition of an emergency, combined with a fairly high income threshold for

assistance (an EA program conducted by the Texas Department of Protective and Regulatory Services uses an annual income limit of \$63,000), could make many individuals served by TCADA eligible for EA. The treatment services available under EA could include both community-based and institutional programs.

The number of TCADA clients who would be eligible for EA would depend on a number of factors, including how the Emergency Assistance definition is written; whether it includes adult or children's chemical dependency; the percentage of the TCADA caseload that would comprise families and children (childless adults are not eligible); designated annual income thresholds; and the speed and consistency of field implementation of the program.

Medicaid Program

Funding for some of TCADA's chemical dependency prevention and treatment services also could be captured through Medicaid. These treatment services could be covered by Medicaid funds for eligible clients, if prescribed by a physician. Also, certain outreach, case management and other support activities may be eligible for reimbursement, resulting in new federal revenue for the state.

TCADA already has initiated an effort to secure Medicaid reimbursement for its residentially-based treatment services. While the outcome of this effort is not yet clear, the potential exists for TCADA's community-based services to receive similar reimbursement. In fiscal 1995, TCADA's state-only budget for outpatient and community-based residential services was more than \$17.5 million.³ A large percentage of community-based services are targeted for children and adolescents. Thirty-four percent of Texas children are eligible for Medicaid.⁴

Recommendations

- A. **The Health and Human Services Commission should coordinate with the Texas Commission on Alcohol and Drug Abuse (TCADA) and the Texas Department of Human Services, the single state agency for Title IV-A, to amend the Title IV-A Emergency Assistance Plan.**

The state's Title IV-A Emergency Assistance plan should be amended to define eligibility requirements to include either the child or a significant adult in the family in need of chemical dependency treatment.

- B. **TCADA should continue to study the benefits of including chemical dependency treatment as a Medicaid service.**

This would require amending the state Medicaid plan to include chemical dependency treatment as an allowable service.

Implications

By including chemical dependency in the Emergency Assistance and Medicaid programs, the current amount of state funds spent could be matched to receive additional federal funds. Defining chemical dependency as a covered service under the Medicaid or Emergency Assistance programs carries a risk of creating an open-ended entitlement program for these services. For this reason, it would be important to define eligibility carefully to ensure that the program is not expanded to increase costs to the state.

Fiscal Impact

TCADA's fiscal 1995 budget reflects \$30.4 million in general revenue and \$53.4 million in interagency contracts.⁵ The majority of the interagency revenue comes from TCADA's contract with the Texas

Department of Criminal Justice (TDCJ). The population served by TDCJ that would be eligible for Emergency Assistance includes inmates, probationers and parolees aged 17 through 24, and all who are parents of children and adolescents. TPR's estimate conservatively assumes that 20 percent of the total TDCJ population should be considered for the Emergency Assistance analysis.

Based on experience in other states, it is estimated that 25 percent of the services provided by TCADA could be reimbursed through the Emergency Assistance Program or the Medicaid Program.⁶ At least 10 percent of TCADA's caseload should be eligible either for Emergency Assistance or Medicaid. The federal matching rate of 50 percent for Emergency Assistance and Medicaid administration was used for the estimate.

The administrative costs have been estimated at 15 percent of any new revenue. Startup is assumed to take six months.

Net savings for general revenue would be \$653,000 for the 1996-97 biennium. To achieve certifiable savings, appropriations to TCADA would have to be reduced accordingly.

Fiscal Year	Savings to the General Revenue Fund	Cost to the General Revenue Fund	Net Savings to the General Revenue Fund	Change in FTEs
1996	\$256,000	\$39,000	\$217,000	0
1997	513,000	77,000	436,000	0
1998	513,000	77,000	436,000	0
1999	513,000	77,000	436,000	0
2000	513,000	77,000	436,000	0

Endnotes

- ¹ Texas Commission on Alcohol and Drug Abuse, *Legislative Appropriations Request for Fiscal Years 1996 and 1997* (August 3, 1994, Austin, Texas), p. 5.
- ² Texas Comptroller of Public Accounts, *Recommendation to Improve Non-State Funding for State Public Assistance*, by the Institute for Human Services Management (Austin, Texas, October 14, 1994), p. 17. (Consultant's report.)
- ³ *Legislative Appropriations Request for Fiscal Years 1996 and 1997*, p. 23.
- ⁴ Estimates jointly developed by the Texas Education Agency and the Department of Human Services, 1993.
- ⁵ *Legislative Appropriations Request for Fiscal Years 1996 and 1997*, p. 5.
- ⁶ *Recommendation to Improve Non-State Funding for State Public Assistance*, p. 18.

Stop Returns to Welfare

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Sometimes families struggle out of the welfare system only to fall back in because they cannot make a living wage or because the system itself provides few incentives to work. Many people rely on Aid to Families with Dependent Children (AFDC) for short periods between jobs. Others cycle in and out of the system many times as their life circumstances change.

The overriding goal of any welfare reform effort must be to help families become self-supporting. The first priority of every element of the welfare system—eligibility determination, case management, service delivery, education, job training and employment services—must be client self-sufficiency. If the provided service does not somehow move the client closer to that goal, then that service should be examined and changed.

Local communities must have the means to develop their own specific delivery systems. Public assistance programs that work in Dallas may be useless in the Rio Grande Valley. The role of state agencies administering these programs should be to determine broad priorities and goals, provide technical support and information and help fund local programs.

A key initiative in this section proposes empowering local work force development boards to design and implement the education, training and employment plans that best suit community needs. These boards, created by Senate Bill 642 in the 1993 legislative session, are now overseen by the Texas Council on Workforce Competitiveness. The Comptroller's Texas Performance Review (TPR) has proposed the creation of a new state work force agency that would oversee local board programs and, among other duties, would take over administration of the state's Job Opportunities and Basic Skills (JOBS) program from the Texas Department of Human Services (DHS).

The local boards could tailor innovative programs, using state and local funds to draw down federal funds under the JOBS program and cash from AFDC or food stamps. Texas communities could adapt other states' initiatives—which might include privatizing work training

and placement services, temporary job subsidies or community work experience programs—to suit their own needs.

To cover these boards' start-up costs and micro-loans, we recommend that the Legislature establish a permanent revolving loan fund to local governments from general revenue. Among the innovative programs that local boards might implement are job clubs, internship programs and entrepreneurial incubators for AFDC recipients.

Also in this section, we recommend adjustments to the state AFDC and JOBS programs that would remove disincentives to work and move caretakers into the job training system more quickly. We also recommend that Texas' private industry councils use funds available under the Job Training Partnership Act to create programs to train public assistance recipients for jobs that are in demand locally.

Finally, a TPR recommendation reproduced in this section would designate the Comptroller's office as the lead agency for promoting awareness of the federal Earned Income Tax Credit. Greater use of this tax credit could put thousands of additional federal dollars in the hands of Texas' working families.

Texas JOBS: How Do We Stack Up?

Many AFDC recipients are required to participate in JOBS education, training and employment programs to help them become self-supporting. The program exempts AFDC clients who care for children under three, who or are ill or incapacitated or care for such a person, who work more than 30 hours per week or who are under 16 and in school full-time. While in the JOBS program, a client continues to receive the basic AFDC grant—in Texas, \$188 per month for a family of three—plus Medicaid and food stamps.

States must provide JOBS participants with case management, education, job skills and job readiness training, job development and placement services, child care and transportation. States also must provide at least two of four optional services, including group and individual job search activities, on-the-job training, work supplementation programs and community work experience. The optional components of Texas' JOBS plan are on-the-job training, job search and a specially approved alternative work experience program.

DHS administers the JOBS program in 87 counties that serve about 90 percent of the eligible adult caretakers. In 1992, 45 percent of Texas' JOBS funds were spent on child care; 36 percent went for service delivery and case management; 8 percent for job readiness and job search activities; 6 percent for transportation and other support services; and 5 percent for education services through an interagency contract with the Texas Education Agency (TEA).¹

Texas does not use federal JOBS funds for job training. Rather, job training for Texas' JOBS clients is funded by Title IIA and IIC of the federal Job Training Partnership Act (JTPA), administered by the Texas Department of Commerce.

In other states, job training is an integral part of the JOBS program. Arkansas, which captures all available federal funds from JOBS, has a very active job training component. JOBS case managers go out into the community looking for companies that are hiring. Case managers can offer to train any JOBS clients the company will hire, as well as provide customized training for the company. Some companies in Arkansas have agreed to locate in low-employment rural areas in exchange for customized training provided by the JOBS program.²

In Texas, JTPA job training consists mostly of vocational-type training classes. On-the-job training is rare, except that hospitals often provide training in health-related fields.

Texas supplies job search and job readiness activities mainly through an interagency agreement with the Texas Employment Commission (TEC). Level 1 clients—those with a high school diploma or General Educational Development (GED) certificate and/or recent work experience—are referred directly to TEC. Clients who cannot find jobs through TEC are referred

back to the JOBS case manager, who may refer them to other sources of job training or education if they are available.

In Texas' alternative work experience program, case managers seek out local public and non-profit agencies willing to use these clients as volunteer workers. Unpaid work experience, lasting up to six months, may help the client find a permanent job later.

In March 1994, the Office of the State Auditor released the results of an extensive study of Texas' JOBS program. The report cited the following problems:

- *The program needs to define its goals and evaluate the program in relation to them.* Although the stated goal of the JOBS program is to "move toward self-sufficiency," self-sufficiency has never been defined in measurable terms. This makes it impossible to measure the program's success objectively.
- *Short-term results indicate that program participants have yet to achieve higher wages than non-participants.* The study examined one group of AFDC clients in the JOBS program and another AFDC client group not enrolled in the program. When members of these two groups became employed, the study found no significant differences in their earnings—although a larger percentage of the JOBS group had jobs by the end of the analysis period.
- *Available federal funding for the JOBS program is not being fully used.* State funds are insufficient to draw available federal appropriations to Texas. The state lost an additional \$7.4 million during 1992-93 because DHS transferred some available state funding—which could have been used as matching money at the higher JOBS rate—to another program with a lower matching rate.
- *Management controls over child care are not effective.* Inefficient use of child care funding cost the state \$6.6 million during an 11-month period in 1993, the State Auditor found. One reason was that the Child Care Management Services (CCMS) Division of DHS often paid for a 40-hour child care week when clients were in training for only a

part of that time. The audit also found instances where CCMS paid for inappropriate or unnecessary child care. In such cases, a case worker might indicate the need for three child care slots for a client's three children, when in fact, two of the children were enrolled in school. As a result, some regions of the state had to stop taking JOBS clients because they ran out of child care funds.

- *Opportunities exist to increase cooperation between JOBS and JTPA.* Although serving JOBS clients is one of JTPA's top priorities, the number of clients served has actually declined.
- *Cumbersome management processes for case managers limit the effectiveness of the JOBS program.* The audit report cited specific management problems within DHS and burdensome documentation requirements, some of which are not required by the federal government.³

The audit report concluded with a series of recommendations designed to solve some of these problems. The Comptroller's recommendations in this report incorporate some of the State Auditor's proposals.

Endnotes

¹ Interview with Kenneth Lyles, Texas Department of Human Services, Austin, Texas, October 31, 1994.

² Interview with Ken Cook, Texas Department of Human Services, Dallas, Texas, October 24, 1994.

³ Office of the State Auditor, *An Assessment of the JOBS Program* (Austin, Texas, March 1994), pp. 1-3.

Create Innovative Local Training/Employment Programs

Texas should empower its local work force development boards to design and implement innovative educational, training and employment programs for welfare recipients, tailored to meet local needs.

Background

One summary of the results of programs to train or find jobs for welfare recipients notes that programs developed and supported at the local level tend to work best. "Management experience in both the public and the private sectors suggests that decentralized programs that are responsive to local conditions and 'owned' by participants are more likely to be successful than programs imposed from the top."¹

In 1993, the Texas Legislature created the state Council on Workforce and Economic Competitiveness and local boards to improve the coordination of Texas' employment and training programs. These optional boards are responsible for designing local plans to deliver a broad range of employment and training services.

The Comptroller's Texas Performance Review (TPR) has recommended the creation of a new state agency to take charge of all major work force development programs. This agency would directly control programs such as Job Opportunities and Basic Skills (JOBS) and Food Stamps Employment and Training (FSET), administered by the Texas Department of Human Services (DHS); Job Training Partnership Act (JTPA) programs administered by the Texas Department of Commerce; Adult Education, administered by the Texas Education Agency; and Employment Services, administered by the Texas Employment Commission.

Currently, the resources of all these programs are used to serve public assistance clients through a system of interagency referrals, subcontracts and informal networks, but their separate location and administration—including separate planning, budgeting, and information systems—make increased cooperation and efficiency difficult. The new state agency proposed by TPR would administer all these programs, making it easier to implement "one-stop" employment and training centers for all trainees and businesses.

The new agency also would work with the federal government to eliminate the current separate budgeting, reporting and other requirements that drain money away for administrative costs at the state level when it could be used much better at the local level. Instead, the individual sums now coming to Texas for JOBS, FSET, Adult Education and other programs serving current and potential public assistance recipients would be allocated to Texas in a single block grant for work force development.

The local work force development boards would use state and federal funds, provided initially through the major existing education, training and job programs—and in the long run by the work force block grants—to operate the specific programs the boards chose to implement. In addition, any local funds brought to these programs could be used to draw down additional unused federal funds under the JOBS program.

Once the new state work force agency took control of the JOBS program, it would be responsible for the state plan and could make changes to coordinate JOBS with other work force efforts related to clients of Aid to Families with Dependent Children (AFDC). One change would be to allow JOBS money to cover training costs and to allow local boards to develop their own programs. DHS estimates that Texas will have \$41 million of unused JOBS funds in fiscal 1996 and again in 1997.

Through one-stop employment centers, simplified and streamlined eligibility determination systems, single case management and other innovations, the local boards would re-engineer their many delivery systems into a single manageable and coherent program. To perform these functions, local boards would have the full technical and informational support of the new state agency.

In addition, the local boards would have the authority to select programs for their areas, based on the needs of their welfare and unemployed populations. The boards' primary goal would be to help people find well-paying jobs and leave public assistance as quickly as possible. If the local population needs basic education and training, the board should establish appropriate

programs. If major employers are moving or closing, the board should focus its resources on retraining employees for new jobs.

In Fort Worth, when a major defense business shut down, leaving hundreds of long-time employees out of work, a major electronics firm moved into the facility and needed workers trained in that industry. Local private industry councils under the JTPA system worked closely with the new employer, designing customized training programs to teach workers the needed new skills. This kind of government-industry cooperation can help meet the complex problems of local labor markets.

Placing AFDC Clients in Jobs

For many AFDC clients, lack of work experience is a significant barrier to finding steady employment. About half of all clients have not graduated from high school and many have no work experience or skills that would make them employable.

States have attacked this problem in different ways. Indiana, Missouri, Minnesota and New York have experimented with programs that offer temporary subsidized work to give clients experience in the work place. Most supported employment plans subsidize jobs by "cashing out" food stamp benefits. Oregon has begun a similar program, Jobs Plus, combining a cash-out of food stamps with AFDC payments to subsidize jobs.

Business involvement is critical for this type of approach, since participating companies are usually required to offer on-the-job training and employ the clients for a specific length of time. In such programs, clients get work experience and on-the-job training, receive a regular paycheck for their efforts and increase their self-esteem by going to work every day.

On the minus side, such work experience is brief, usually six months. The clients, however, do receive valuable work experience and the motivation to find a permanent job.

Other states enroll clients in community work experience programs (CWEP). Connecticut, Vermont, Wisconsin and other states offer community service work for clients who fail to find jobs after specific periods on AFDC. Like supported work programs, CWEP

programs offer clients temporary work and are not designed as permanent job placements. One problem with this type of program is that the local community often bears the brunt of financing, and the program becomes a local mandate. If Congress passes a time-limited model of welfare reform, however, community service programs will become the most likely vehicle for post-AFDC employment.

A few states have turned to the private sector to place AFDC clients in jobs. America Works is a private corporation specializing in this area. New York has contracted with America Works for seven years and claims an 82 percent success rate. The state pays the company a specified amount, usually about \$5,500, for each client successfully placed in a job for several months. While actual job training is minimal, the program stresses punctuality, appropriate work behavior and dress and interview skills. Once a client is hired, America Works supports the client for three months, paying a minimum-wage salary, visiting the work site, working with the client and his supervisor and helping resolve any personal problems the client may have.

Critics of America Works claim that New York is paying thousands of dollars for clients who never find jobs. Once the client finishes the initial one-week session, America Works receives \$980, the first of three installment payments. The bulk of the fee—\$3,855—is paid after the client has completed three months of work and is permanently hired by the employer. According to the *New York Times*, "since 1989 New York State has paid nearly \$1 million to America Works for people who never found permanent work—about \$133,000 for people who entered the course but never found jobs and about \$857,000 for people who did not stay in their full-time job for more than three months."²

Job Clubs

A program called Work First helps potential welfare clients find work, sometimes even before their AFDC application is approved. This concept uses job clubs and job readiness activities to motivate clients to find and apply for jobs. The job clubs may be operated by non-profit groups such as the Salvation Army or United Way and are funded through JOBS, using

local matching funds. The Work First models in Wisconsin and New York states have been particularly successful.

In the Work First program in Kenosha County, Wisconsin, all mandatory JOBS program participants must be looking for jobs within seven days of application. The goal is to have all clients working within 11 weeks of application. Clients spend 40 hours a week in job clubs while their children receive on-site day care. By the end of 1992, 70 percent of the 1,263 program participants were either off AFDC (54 percent) or working (16 percent).³

New York operates a pilot program called Jobs FIRST in two counties. Applicants are screened and classified as either job-ready, not immediately job-ready but employable or faced with substantial barriers. (This classification system is similar DHS Levels I, II and III in Texas.) All clients are encouraged to enter the Jobs FIRST program and are placed in job clubs.

Internship Programs

Almost every state pursuing welfare reform has developed programs to provide training or incentives to encourage welfare recipients to go to work. Few models, however, consider the role businesses should play to ensure that jobs exist for those willing to work.

Utah's Single Parent Economic Independence Demonstration Project (SPEID), in partnership with Utah's Women in Business Management organization, paired single AFDC parents with mentors in the workplace. This public-private partnership concentrated on entry-level positions in industries that gave SPEID participants the opportunity to obtain widely marketable job skills.⁴

Utah marketed SPEID to area businesses as a practical, manageable way to take part in addressing the needs of single-parent welfare recipients and to increase the pool of skilled and experienced workers.⁵ Since 1988, when the program began, more than 200 businesses have agreed to provide internships for and to mentor more than 1,000 participants.⁶

SPEID asked participating businesses to assign a mentor to each intern in the program. In return, SPEID placed an intern with the business for three to six months at no cost to the

business. Interns continued to receive all their welfare benefits, including medical and child care, plus additional cash to cover work-related expenses such as transportation, clothing, etc. Businesses were not obligated to hire the intern upon completion of the internship, although mentors were asked to assist participants with references and networking opportunities.

Participants were referred to SPEID from traditional training programs where they had already received their general equivalency degrees (GEDs) and pre-employment training, including job seeking and retention skills. Utah used both state funds and federal JOBS funds to cover expenses in excess of its usual welfare grant. The state obtained appropriate waivers to allow direct payments for work-related expenses to be treated as a reimbursement rather than as recipient wages. This waiver permitted participants to receive additional funding without jeopardizing their benefit levels.

Each participant in SPEID received intensive case management, including monthly group sessions and lunch seminars covering topics such as appropriate work attire, leaving children to go to work and coping with new situations. Both participants and mentors viewed the case management requirement as essential to the success of the program.

Utah's leadership decided early to house SPEID with area private industry councils rather than with the state welfare agency to help create a job placement atmosphere and to encourage business involvement. Both rural and urban counties participated in SPEID.

Three years into the project, the University of Utah, at the request of the U.S. Department of Health and Human Services, evaluated SPEID. The study examined three groups of welfare recipients: non-random, random and control groups. Those in the first two groups had participated in SPEID; the control group had not. About twice as many SPEID participants as controls had full-time employment after 12 months.⁷ Perhaps more importantly, after six months, more than 55 percent of the SPEID participants were no longer receiving AFDC payments, versus fewer than 40 percent of the controls and program dropouts. More than half of those completing the internship received job offers from the company that provided the internship.

Entrepreneurial Incubators

In 1988, a consortium of five states—Iowa, Maryland, Michigan, Minnesota and Mississippi—contracted with the Corporation for Enterprise Development to conduct a four-year demonstration project testing the concept that self-employment or business ownership can be a viable way for some AFDC recipients to leave public assistance. The objectives were to provide training, technical assistance in business development, access to capital and a support network for AFDC recipients.

Each state obtained waivers from existing federal AFDC regulations that prohibit self-employment. The regulations concerning the treatment of assets and income had to be adjusted so that participants who started businesses would continue to receive AFDC and Medicaid benefits for one year. The program ran for four years in each state and has provided positive outcomes for more than 500 small businesses.⁸

In Michigan, the Detroit Self Employment Project (DSEP) has been successful in developing entrepreneurs. Case management responsibilities include training participants in special budgeting and reporting procedures; records management; maximizing benefits in the least obstructive manner for participants; and helping the participant build a successful business. Support services include day care, Medicaid, transportation and access to small grants.

The program's 11-week training component helps participants assess their interests and skills relating to enterprise opportunities. Training is provided through classes, workshops, conferences and problem-solving clinics. A revolving loan fund provides resources for entrepreneurs to buy start-up equipment. Participants are given access to computer training and help in conducting market research and creating a business plan.

DSEP has produced almost 100 successful new businesses, including accounting services, advertising firms, catering services, child care facilities, construction contractors, food manufacturers and printing and secretarial services.⁹

Two loan funds were established to support DSEP and provide capital for business development. The Direct Loan Fund, providing up to \$2,000 for qualified applicants, was

established with a \$75,000 grant from the Mott Foundation. The Loan Loss Reserve Fund was established with a \$50,000 grant from the Michigan Department of Commerce and is used to back up loans from participants with a reliable repayment history with the Direct Loan Fund.

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Recommendations

- A. Texas should empower local work force development boards to design and implement educational, training and employment plans for their areas, choosing from the many available programs.**

The local boards would submit proposals to Texas' new work force agency for approval. Approved area plans would become local demonstration projects.

Local boards should have as much freedom to develop proposals as possible. Boards would have the authority, for example, to bid for a cash-out demonstration project using AFDC and food stamp benefits to subsidize jobs. The jobs could provide temporary work experience, or the money could be used to subsidize permanent jobs for a specified period.

The Legislature would need to create a permanent revolving fund to cover start-up costs until cash-out funding becomes available. This permanent fund would come from general revenue, drawing down matching JOBS funds at the 36/64 state/federal rate. Money drawn from this fund would be replaced from the cash-out funds as they become available.

Although the local boards would be responsible for administering their programs, the new state work force agency would have to approve any changes in the structure of local programs. Local boards would have to report quarterly to the agency on the administration and effectiveness of their programs.

- B. Texas should encourage those applying for or receiving AFDC benefits to participate in job readiness and job search activities.**

The local work force development board could establish a Work First program under the JOBS program and use state and local funds to draw down federal funds.

Local public or non-profit groups could bid to run job clubs where clients would spend 40 hours per week in job readiness and job search activities. Block grants might be available to allow each local board to offer a limited number of subsidized jobs for clients who have difficulty finding jobs through regular channels.

Job clubs could also work with local agencies and non-profit groups to establish a community work experience program. Such programs would provide limited part-time work experience as a first step in obtaining job skills.

C. Texas should empower local work force development boards to offer internship programs as an option for AFDC recipients.

Such programs could be sponsored by business-related service groups, as in Utah. Funding through both JOBS and JTPA would be required. Local funds donated could receive federal JOBS matching funds, and the proposed state revolving fund could provide local start-up funding. All AFDC benefits would continue for clients in the internship program, and a combination of JOBS and JTPA support funds could provide work clothing and tools, transportation and child care.

D. Texas should allow local work force development boards to create entrepreneurial incubators for public assistance recipients to start their own businesses.

Local boards could include this option in their area plans and apply for start-up funds from the state revolving fund. These funds should be matched 50/50 with funds donated by local businesses.

Once AFDC clients were enrolled in the program, regular funds for training and child care would be forthcoming from the JOBS program. Money from the state revolving fund would be repaid with these JOBS funds. As with other JOBS programs, any local funds donated to the program could be used to draw down additional unused JOBS funds. Start-up loans for new businesses would be paid back into the fund by the businesses.

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Implications

Recommendation A would require a statewide federal waiver approving the use of cash-out funds, and each approved proposal might require an individual waiver. Congress recently passed legislation limiting the number of states that may use cash-out options for food stamps. Other states have already submitted waiver requests. One of the requirements to receive a waiver is that the state must be working to implement electronic benefits transfer (EBT). Texas, as one of the few states with a working EBT program, should be a prime candidate for a cash-out program waiver.

Any waiver request would have to demonstrate federal cost-neutrality. With Texas' small AFDC grant, only limited funds would be available to provide job subsidies. Local boards would need to consider the number of eligible clients and available jobs in the community in designing a customized program.

Although JOBS funds could be matched, the proposed programs would have to comply with JOBS regulations and could not be used to replace existing programs or funding.

Fiscal Impact

The Legislature would have to provide funds from general revenue to establish a permanent revolving fund for local start-up costs.

Endnotes

¹ Mary Jo Bane and David T. Ellwood, *Welfare Realities: From Rhetoric to Reform* (Cambridge, Massachusetts: Harvard University Press, 1994), p. 25.

² "For Job-Finding Concern, a Troubled Past," *New York Times* (March 1, 1994), p. A-1.

³ Kenosha County, Wisconsin, *Kenosha County JOBS Program 1992 Report* (Kenosha, Wisconsin, 1992), p. 1.

⁴ Davis County Department of Human Services, "SPEID: A Partnership for the Future" ([city?], Utah, 1992). (Videotape.)

⁵ Davis County Department of Human Services, "Evaluation of the Single Parent Economic Independence Demonstration Project (SPEID)" ([city?], Utah, 1991) p. 2.

⁶ Interview with Susan Sheehan, Provo County Private Industry Council, Austin, Texas, October 14, 1994.

⁷ "Evaluation of the Single Parent Economic Independence Demonstration Project (SPEID)," p. 16.

⁸ Corporation for Enterprise Development, *Interim Lessons from the Self-Employment Investment Demonstration* (Washington, D.C., October 1991), Table 1.

⁹ *Interim Lessons from the Self-Employment Investment Demonstration*, Table 1.

Use Job Training Program Funding More Efficiently to Train Unemployed and Underemployed Public Assistance Recipients

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Texas' private industry councils should create local pilot projects that target Job Training Partnership Act (JTPA) funds toward training of public assistance recipients in nontraditional occupations for which demand exists in the job market.

Background

Title IIA of JTPA funds training for needy adults, while Title IIC supports training for youths age 16 to 21. JTPA Title III is used for job training for dislocated workers who lose their jobs because of layoffs or plant closings. These workers, in most cases, are not clients of Aid to Families with Dependent Children (AFDC).

In Texas, JTPA is administered by the Texas Department of Commerce (TDOC), primarily through 35 services delivery areas (SDAs). Private industry councils (PICs) in each SDA decide how to distribute funds among the various providers.

Most job training offered in Texas for economically disadvantaged people is of the "train-and-dispatch" type. Clients are trained to do a specific job and sent into the job market in the hopes that such jobs are available. This focus on training AFDC clients for the traditional work force is costly and inefficient.

Recommendation

Texas' private industry councils should create local pilot projects that target JTPA funds toward training public assistance recipients in nontraditional occupations for which demand exists in the job market.

Public assistance recipients participating in current job training programs do not receive the kind of training they need to qualify for jobs that pay high enough wages to assure long-term economic independence. More carefully targeted training would yield higher earnings than traditional training programs such as cashiers, hotel laundry room attendants, restaurant entry-level workers, etc.

Lower the JOBS Child Care Work Exemption Threshold

Texas' new work force development agency should consider modifying the state Job Opportunities and Basic Skills (JOBS) plan to move caretakers into job training more quickly.

Background

Most working mothers in the traditional job market are allowed six weeks' to six months' leave following the birth or adoption of a child. After that period, the mother must either return to work or face losing her job.

Under federal regulations, a client of Aid to Families with Dependent Children (AFDC) who provides care for a child under three years of age is exempt from the requirement to participate in the JOBS program. When the child reaches three years of age, assuming the mother has not had another child, the AFDC client must register for JOBS.

Many states have changed this exemption to apply to caretakers of children younger than one or two years of age. Five states use a two-year-old child as the work exemption limit, and eight states use one-year-olds. Federal regulations leave this option to the states and do not require a waiver.

Work exemptions for caretakers of younger children generally have the effect of getting caretakers through the system faster. The state JOBS program can count these caretakers as JOBS participants, which helps meet federal requirements for participation rates while avoiding federal fiscal sanctions.

One advantage of this approach would be that caretakers of new-born infants entering the AFDC system would spend one year at home—more time than most working mothers are allowed—and then a maximum of two years in JOBS receiving adult education, job training and employment services. If the caretaker were a Level I client (high school diploma, recent work experience), she would be immediately eligible for job readiness and job search activities through Texas' new work force agency. Under the current system, the caretaker may spend three

years at home with the child before being required to enter the JOBS program, giving her a total of five years in the program under a 24-month limit on benefits.

One disadvantage of this plan is that infant care costs more than care for a three-year-old child. However, it is estimated that the eventual savings of two years of AFDC grant payments would more than offset the added expenses of infant care.

Recommendation

Texas' new work force agency should examine the option of modifying the state JOBS plan to lower the child care work exemption threshold from three years of age to one year.

After a child reaches one year of age, the caretaker-client would have to enter the JOBS program. If a 24-month limit on welfare were set, the "clock" would begin ticking at that point. The new work force agency should study this option as an alternative to the current system, especially if a 24-month limit is imposed on benefits.

Implications

The new state work force agency would have to perform a study comparing the added costs of infant child care for these caretakers against the savings from the reduced length of grant payments. The agency could do this either through a pilot demonstration project or by examining results from the eight states that now use this option.

Fiscal impact

The fiscal impact cannot be determined at this time.

Extend the Supported Work Period for AFDC Clients to Reward Work

Texas should create a demonstration project for Aid to Families with Dependent Children (AFDC) using fill-the-gap budgeting or other measures to give clients more time to become self-sufficient.

Background

One argument against the current AFDC system is that it creates a high rate of recidivism by discouraging work. The system penalizes clients for working by making them ineligible for the grant and support services at a very low income level.

An AFDC client with two dependent children who earns \$681 a month loses eligibility for AFDC and is limited to 12 months of transitional Medicaid, child care and other benefits. An income of \$681 a month represents about 37 hours a week at a minimum-wage job—not enough to pay for rent, utilities, clothes, child care and medical expenses for a family of three in Texas. When transitional benefits expire, the client loses Medicaid and child care support benefits, and some clients are forced to quit work and return to welfare.

Texas' welfare system should reward clients for working by means of a gradual "ramp" of declining benefits that allows families to reach a reasonable level of self-sufficiency before dropping out of the system. One way of achieving this within the current system would be to extend transitional benefits, including Medicaid and child care support, from 12 months to 24 months. By extending the period of supported employment, AFDC clients would have a better chance at reaching self-sufficiency.

Another method of achieving this "ramp effect" is a system of budgeting for AFDC called "fill-the-gap," in which benefits are gradually lowered. Fill-the-gap budgeting works by setting the standard of need (the level the state recognizes as meeting the basic needs of a family) higher than the payment standard (the maximum amount of the AFDC grant). In Texas, the standard of need is currently \$751, while the payment standard for a family of three is \$188.

One method of fill-the-gap budgeting uses a percentage of the difference between the standard of need and the countable income to calculate the grant benefit. This approach is now

used in Colorado, Kentucky, Mississippi, North Carolina, South Carolina and Utah. With this type of budgeting, the state begins reducing the grant amount as soon as the client's countable income (income less disregards) exceeds zero.

This form of budgeting can have two outcomes, depending on the percentage of benefit paid. In general, the higher the percentage paid, the higher the grant level stays. By lowering the payment percentage, a longer period of gradually reduced grant payments can be obtained.

New York has administered its Child Assistance Program (CAP) demonstration project since the fall of 1988. This program uses a grant payment of 10 percent of the difference between the standard of need and the countable income—allowing the client to keep 90 percent of income earned and gradually reducing the grant level over a longer period of time. The advantage of such a system is that by the time the family loses all benefits, their salary is high enough to handle expenses. By rewarding work and encouraging wage increases, New York has found that CAP participants, compared with a control group, had salary levels 27 percent higher and were 18 percent more likely to have income exceeding 125 percent of poverty. New York achieved these results without significantly increasing the amount of benefits paid.

Recommendation

Texas should create a demonstration project for AFDC using a form of fill-the-gap budgeting or extending transitional benefits to 24 months to extend the supported work period and to reward those who work toward becoming self-sufficient.

The demonstration project could employ fill-the-gap budgeting using the current Texas standard of need of \$751, the current maximum benefit of \$188 and a percentage of payment between 10 percent and 25 percent. The percentage used controls the grant amount and is a multiplier of the difference between the standard of need minus countable income.

If the percentage is set at 10, the AFDC grant drops faster—\$34 at full time, minimum wage—and falls gradually until the client reaches \$6.50 an hour, where she drops out of the system. This is an earned income of slightly more than \$13,500 a year and combined with other

benefits still in place—food stamps and the Earned Income Tax Credit (EITC)—the total annual earnings would be \$16,500, or 135 percent of poverty.

If the percentage is set at 25, the AFDC grant stays at a higher level—\$107 at full time, minimum wage—and slowly drops until the client reaches \$7.50 an hour, where she drops out of the system. This is an earned income of \$15,600 and combined with other benefits still in place, the total annual earnings would be nearly \$17,000, or 139 percent of poverty.

Because of the difference in grant amounts (of which Texas pays about 36 percent), a lower percentage costs less to implement. In either scenario, a time limit of 24 months from full-time employment is assumed, with no further transitional benefits after that point.

The proposed demonstration project could also extend transitional benefits to 24 months. In this approach, a client reaching the monthly income level of \$681 would lose the AFDC grant and enter the 24-month period of transitional benefits. This would provide 24 months of supported employment with full Medicaid and child care benefits in place. As in the other two proposed projects, these benefits would stop after 24 months, giving the client ample time to receive pay increases and company benefits.

The advantage of this demonstration project is that at every level of salary increase, the client's total income (monthly salary plus benefits) continues to increase. At all income levels up to the point of ineligibility, Medicaid, child support, food stamps and EITC benefits continue, although at decreased levels.

Implications

The three proposed methods of implementing this demonstration project can be compared in several different ways. From a pure cost analysis, extending transitional benefits is the most cost-effective and fill-the-gap budgeting at the 25 percent rate is the most expensive. For a demonstration project of 1,000 clients, extending transitional benefits would cost about \$5.12 million a year, while the fill-the-gap (25 percent) method would cost about \$7.7 million because of the continuing higher level of the AFDC grant.

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Analyzing the total income (earned income plus benefits), the fill-the-gap (25 percent) method provides a longer "ramp" effect and higher total income. The fill-the-gap (10 percent) method has a lower grant amount at the beginning, but compared to the 25 percent model, the gap narrows as the earned income increases. At \$6.00 an hour, the difference is only about \$28 a month. Extension of transitional benefits provides about \$81 to \$122 a month less income at the full-time, minimum-wage level because this is where the AFDC grant is lost. As the salary increases, there is less difference between this and the fill-the-gap models.

Fill-the-gap budgeting does not require a federal waiver for a state demonstration project, but extending transitional benefits to 24 months would require a waiver.

Fiscal Impact

The following assumptions are made for the demonstration project:

1. Full-time, minimum-wage job (\$4.25 per hour) with no raises over a 24-month period (worst case scenario)
2. Two-year limit of benefits from the time a full-time job is obtained.
3. Project includes 1,000 clients.
4. No transitional benefits paid following the 24-month period.

	Fill-the Gap Budgeting (25 percent rate)		Fill-the-Gap Budgeting (10 percent rate)		Extension of transitional Benefits — (24 months)	
	Rate	Cost	Rate	Cost	Rate	Cost
AFDC Grant	\$107 x 24	\$2,568	\$34 x 24	\$816	\$0	\$0
Medicaid	\$286 x 12*	\$3,432	\$286 x 12*	\$3,432	\$286 x 12*	\$3,432
Child Care	\$141** x 12*	\$1,692	\$141** x 12*	\$1,692	\$141** x 12*	\$1,692
Food Stamps	no change	\$0	no change	\$0	no change	\$0
EITC	no change	\$0	no change	\$0	no change	\$0
Total Cost per Client (biennium)		\$7,692		\$5,940		\$5,124
Cost per 1,000 (biennium)		\$7.7 million		\$5.9 million		\$5.1 million

Federal Funds	\$4.9 million	\$3.8 million	\$3.2 million
State General Revenue	\$2.8 million	\$2.1 million	\$1.8 million

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* 12 months of Medicaid and child care benefits were used because the first 12 months are presently covered through the 12 months of transitional benefits.

**\$141 is the state average child care expenditure for a family of three (per DHS).

OPTION 1 - Fill-the-Gap Budgeting @ 25 percent

(in millions)	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
State Gen. Rev.	\$0.5	\$2.3	\$0	\$0	\$0	\$2.8
Fed.	\$0.8	\$4.1	\$0	\$0	\$0	\$4.9
Total	\$1.3	\$6.4	\$0	\$0	\$0	\$7.7

OPTION 2 - Fill-the-Gap Budgeting @ 10 percent

(in millions)	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
State Gen. Rev.	\$0.1	\$2.0	\$0	\$0	\$0	\$2.1
Fed.	\$0.3	\$3.5	\$0	\$0	\$0	\$3.8
Total	\$0.4	\$5.5	\$0	\$0	\$0	\$5.9

OPTION 3 - Extension of Transitional Benefits to 24 Months

(in millions)	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
State Gen. Rev.	\$0	\$1.8	\$0	\$0	\$0	\$1.8
Fed.	\$0	\$3.3	\$0	\$0	\$0	\$3.3
Total	\$0	\$5.1	\$0	\$0	\$0	\$5.1

Increase Automobile and Asset Limits for AFDC Recipients

Texas should increase the automobile and asset limits for recipients of Aid to Families with Dependent Children (AFDC).

Background

AFDC recipients may not own an automobile worth more than \$1,500. Older automobiles are more likely to be subject to high repair bills, low gasoline mileage and frequent breakdowns. Increasing the automobile equity value limit would allow potential AFDC clients to have a reliable source of transportation to and from training classes and work.

Federal limitations on other owned assets are \$1,000. Increasing the asset limit would encourage clients to plan for the future and work harder to get ahead. Clients would learn the normal skills of buying products that improve their standard of living.

Many states have experimented with raising the allowable automobile and asset limits for AFDC eligibility. Colorado's new welfare reform plan provides for an asset limit of \$5,000 for employed recipients and \$2,000 for non-employed; one automobile is entirely exempt. Florida's reform package increases the asset limit to \$5,000 plus an automobile of "reasonable worth." In 1993, Iowa increased asset limits to \$2,000 for applicants and allowed program participants to accumulate up to \$5,000 in assets. Iowa also allows a vehicle equity of \$3,000 and another \$10,000 worth of "tools of the trade" for self-employed people. New Jersey allows "countable resources" to be \$5,000 and vehicle equity up to \$15,000. Oregon has proposed a \$9,000 automobile equity value limit.

Recommendation

Increase the automobile and asset limits to \$3,500 each for Texas AFDC recipients.

The current limits of \$1,500 for automobiles and \$1,000 for other assets would be left in place for determining AFDC eligibility, but raised to \$3,500 once the applicant is accepted into the AFDC program. By leaving the entrance gateway narrow, the AFDC caseload would not

grow, but clients would be encouraged to save and accumulate assets while on the road to self-sufficiency.

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Implications

Increasing automobile and asset limits for AFDC participants statewide would require a federal waiver.

Fiscal Impact

The Texas Department of Human Services has provided the following estimates for a statewide program.

(in millions)	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
State General Revenue	\$0.7	\$1.4	\$1.4	\$1.5	\$1.6	\$ 6.6
Federal Funds	\$1.1	\$2.1	\$2.2	\$2.4	\$2.5	\$10.3
Total Cost	\$1.7	\$3.5	\$3.7	\$3.9	\$4.1	\$16.9

Establish Individual Development Accounts

To encourage economic security and productivity, the Legislature should establish Individual Development Accounts to enable public assistance recipients to save money for post-secondary education, self-employment, retirement or a first home.

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Background

Federal rules prohibit those receiving Aid to Families with Dependent Children (AFDC) from having more than \$1,000 in a savings account. Individual Development Accounts (IDAs), however, could help lower-income families break the cycle of poverty. Asset accumulation not only helps AFDC recipients financially; it also can increase self-esteem and provide greater stability for the entire family.

Policies based on asset accumulation are not new. The Homestead Act, which provided land to early settlers, helped instill self-respect and led to economic prosperity.

An IDA would operate much like an Individual Retirement Account (IRA), but the IDA would be available on an optional basis for those with low incomes. The IDA would be an interest-bearing account, which could be established as early as birth.

In the past, institutional programs such as IRAs and retirement funds have enabled higher-income people to accumulate wealth, but the poor have been excluded. The IDA concept is based on the premise that providing poor Texans with the incentive to save would help lift them out of poverty. Today's public assistance programs provide food, financial aid and medical care; however, these services do little to get poor families off welfare.

Iowa is the first state to have an IDA pilot through the Family Investment Plan and the "Iowa Invests" program, which combines asset development with welfare reform. Iowa Invests authorized the creation of 10,000 IDAs. Participants may place a portion of their earnings into the IDA and save the money for future approved uses. Iowa also allows anyone whose household income does not exceed 200 percent of the federal poverty level to accumulate assets in an IDA.

As part of Oregon's welfare reform effort, JOBS Plus (a subsidized employment program) establishes Development Accounts. Under this plan, one dollar per hour of the money

that would typically go to the recipient's employer would go into a development account. This interest-bearing account would be maintained by the state treasury and could only be used for education. Mississippi has proposed a similar program.

Another alternative way to fund IDAs would be to encourage recipients to save part of the money received from their Earned Income Tax Credit (EITC). This should encourage participation in the EITC program.

Recommendation

The Legislature should establish Individual Development Accounts to enable public assistance recipients to save money for post-secondary education, self-employment, retirement or a first home.

The state treasury, in cooperation with the Texas Department of Human Services, should implement an IDA pilot program. At first, the number of IDAs would be limited to 5,000. The state would provide matching funding of up to \$200 per account for a total of \$1 million from the General Revenue Fund. The private sector would be encouraged to provide additional matching funds. Each account would be capped at \$5,000.

Implications

IDAs would help encourage asset accumulation, which would help recipients move toward self-sufficiency. This project would require a federal waiver.

Fiscal Impact

The Clinton administration's welfare reform plan would provide matching federal money on a demonstration basis, but these funds are not currently available. This project requires a waiver; after two years, the program would be expanded to allow additional accounts.

DHS provided the following estimate for a 5,000-person demonstration.

<u>Fiscal Year</u>	<u>Total Cost</u>	<u>Federal Funds</u>	<u>State General Revenue</u>
1996	\$1,128,000	\$64,000	\$1,064,000
1997	1,128,000	64,000	1,064,000
1998	1,128,000	64,000	1,064,000

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Increase Earned Income Tax Credits to Texas Families

The Legislature should designate the Comptroller's office as the lead agency for promoting awareness of federal income tax credit programs for working families, and should encourage other state agencies to cooperate in this effort.

Background

The earned income tax credit (EITC) is a federal tax credit for working families who fall within certain income guidelines. Internal Revenue Service (IRS) officials estimate that as many as 15.3 million families nationwide will qualify for the EITC refund in 1995, in addition to 4.5 million working individuals without children.¹ This will be the first year in which individuals without children may participate in the EITC program.

In 1994, IRS estimated that 1.5 million working Texas families would qualify for \$1.6 billion in EITC refunds; 1.3 million of these families had received refunds totaling \$1.4 billion for tax year 1993.

While the IRS has not made an official 1995 estimate for Texas, given the higher credit amounts and expanded eligibility that became effective in the 1994 tax year, the state can expect a dramatic increase in the number of families claiming the credit and in total credits claimed. Simply extending the patterns of growth experienced over the last six years suggests that at least 1.8 million families will claim credits in 1995 totaling \$2.3 billion, money that will be injected into the Texas economy.

Although the number of Texans claiming EITC is rising, each year an unknown percentage of working Texas families who qualify for the refunds do not participate because they are not aware of the program. To encourage greater participation, the Comptroller's office in 1995 will conduct its fourth annual EITC public information campaign. This statewide, bilingual multimedia awareness program generated thousands of requests for information in 1994.

To claim the EITC, families must meet specific income qualifications and file the appropriate forms. The vast majority of families claiming the refund do so when they file their federal income tax forms. However, families who later realize they qualified for the credit but did not apply for it may submit amended income tax returns. Families who owe no income taxes and qualify for the EITC receive a lump-sum refund. Families who owe income taxes and are entitled to the EITC receive a lump-sum refund less their tax debt.

Low-income taxpayers with children may claim advance payment of the EITC to help meet day-to-day expenses. To claim the advance earned income tax credit (AEITC), an employee completes a one-page form. The employer then calculates the EITC refund that the employee would be due when filing a tax return the following year. Total advance EITC payments are limited to 60 percent of the total estimated credit due the employee.² A worker may claim the balance of the credit when filing a tax return the following year. The employer pays the AEITC through payroll checks, using the income, Social Security and Medicare taxes withheld from the employee.³

Recommendation

The Legislature should designate the Comptroller's office as the state's lead agency for promoting awareness of earned income tax credits (EITC), and encourage other state agencies to cooperate in this effort.

Designating the Comptroller's office as the lead agency would ensure the continuity of the public awareness campaign. The participation of other state agencies in the Comptroller's outreach efforts would increase awareness of the EITC and advance earned income tax credit (AEITC). A coordinated campaign involving all agencies that provide services or benefits to working Texans would increase the number of qualifying families and individuals who apply for and receive EITC refunds and who receive AEITC payments through payroll checks.

Implications

The Texas Health and Human Services Commission, comprising a dozen state agencies that provide benefits to Texans, should be requested to distribute tax credit information to their working clients. The materials distributed should include an IRS Form W-5, an IRS flyer describing employer requirements and an AEITC fact sheet. Working families who qualify for the EITC then could file an IRS Form W-5 and begin to receive an advance portion of their EITC refund in every payroll check. Also, promotion of the AEITC encourages qualifying parents to stay employed to continue receiving advance refunds.

Human services agencies should distribute the EITC materials at the end of the calendar year, when annual benefits statements are mailed to clients.

Distribution of EITC and AEITC information would be especially useful to first-time food stamp clients, who often are unaware of the availability of tax credits or of their potential eligibility for them.

State agencies that do not directly provide benefits to clients also could assist in the outreach effort. For example, the Governor's Office could require that EITC materials be included in exit packages for laid-off workers. The Texas Education Agency could include EITC and AEITC materials in the packets that inform parents about the eligibility requirements for student participation in the federal school lunch program.

Fiscal Impact

This recommendation would have no fiscal impact. It would not be necessary to train the staff of the agencies involved about the details of either the EITC or the AEITC, since clients could call the Comptroller's office or IRS for information. The costs of distributing informational materials will be contained within the Comptroller's office budget for its annual public awareness campaign. Agencies could reproduce most of these materials as needed.

Endnotes

- ¹ Interview with Pam Kirburski, coordinator, Volunteer and Education Programs Office, Internal Revenue Service, Austin District, Austin, Texas, July 25, 1994.
- ² Internal Revenue Service, "Expansion of the Earned Income Tax Credit and the Advance Payment." Washington, D.C., March 9, 1994. (Fact sheet.)
- ³ Internal Revenue Service, "Advance Earned Income Credit." Washington, D.C., October 1993. (Fact sheet.)

Enable Texans with Disabilities to Leave Public Assistance

Some recipients of Aid to Families with Dependent Children should instead be receiving Supplemental Security Income (SSI) or Social Security Disability Income (SSDI).

SSI, a federal income support program based on disability and need, provides monthly cash payments up to \$446 per month, plus medical support under the state's Medicaid program, to people who are disabled, aged or blind. SSDI provides monthly cash benefits for disabled workers under age 65 and their dependents, and provides Medicare to disabled workers, widow(er)s or adult children after they have been entitled to SSDI for 24 months.

Both SSI and SSDI pay considerably more than AFDC, and they provide job programs for disabled people with many support services that are unavailable to AFDC recipients.

Moving AFDC recipients into one of these programs, as recommended in this section, would benefit the state financially, since both SSI and SSDI are 100 percent federally funded. In addition, helping Texans with disabilities obtain supported employment in their communities would enable them to become more self-sufficient.



Transfer Eligible AFDC Clients to SSI and SSDI

The Department of Human Services should transfer cases of individuals with disabilities who receive Aid to Families with Dependent Children to federal Supplemental Security Income and/or Social Security Disability Insurance programs for improved benefits and reduced costs to the state.

Background

Recipients of Aid to Families with Dependent Children (AFDC) who are disabled, elderly or blind may be eligible for Supplemental Security Income (SSI) and/or Social Security Disability Insurance (SSDI) benefits that are considerably higher than those granted under AFDC.

Although Department of Human Services (DHS) caseworkers are trained to ask each applicant if anyone in the household has disabilities, the agency keeps no record as to how the question is answered. If any members of the applicant's household do have disabilities, the DHS caseworker is supposed to offer them an SSI and SSDI application and refer them to the Social Security office. This procedure is not followed consistently.

This assistance, moreover, is often inadequate because, many times, the DHS caseworker does not have time to follow up the referral and make sure that the applicant has applied for SSI or SSDI. Individuals with cognitive disabilities (which more than 50 percent of all SSI recipients have) may find it difficult to even find the Social Security office, much less complete the complex, 16-page application form and obtain the supporting medical or mental health assessments that sometimes are required.

SSI and SSDI

SSI is a federal income support program, enacted in 1972, based on disability and need. A disability under SSI is defined as a severe physical or mental impairment that is expected to last for more than one year or result in death and that prevents an individual from doing substantial work. SSI is available both to adults and children, but the U.S. Social Security Administration estimates that many of the people eligible for SSI have not applied for benefits.¹ SSI pays up to \$446 a month, plus medical support under the state-administered Medicaid program. Payment amounts are based on the recipients' income, living arrangements and state of residence.

SSDI is a similar program intended for persons who have worked for a substantial length of time. The program offers monthly cash benefits to disabled workers under age 65 and their dependents, plus Medicare benefits after two years. SSDI payments are based on a worker's lifetime average earnings covered by Social Security and are not affected by other income.

Both SSI and SSDI provide job programs for people with disabilities to help pay for long-term job training, education and readiness. Many of the support services—uniforms, tuition and books, job coaches and transportation—are not available to AFDC recipients. With these benefits, an individual with disabilities may gain independence. AFDC recipients who have disabilities would be more likely to enter the work force if they have access to such support programs.

AFDC recipients who are eligible for SSI or SSDI, but fail to receive it, miss out on useful services. SSI and SSDI both can pay considerably more than AFDC, which offers an average of \$188 a month per family. An individual cannot receive both AFDC and SSI or SSDI. Moreover, moving AFDC recipients into SSI or SSDI offers the state a financial advantage, because AFDC is funded with state and federal dollars, while SSI and SSDI are 100 percent federally funded.

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Smoothing the Application Process

Most initial SSI and SSDI applications are denied, but if the decision is appealed, the likelihood of approval increases significantly.² The first appeal is a written request for a reconsideration. If the reconsideration upholds the denial, subsequent levels of appeal include a hearing before a federal administrative law judge, a review by an appeals council and finally a lawsuit in federal court. The denial can be overturned at any stage of the appeal process.

Several states have instituted programs to help AFDC recipients leave the program and pursue SSI or SSDI benefits. Oregon assigned three AFDC-SSI liaison workers to assist AFDC recipients with the SSI process. These liaison workers help individuals complete the SSI application, assist them with gathering supporting documentation and represent the client through appeals. Oregon liaison workers estimate that 10 percent of their SSI applications are approved initially. Most of the 90 percent denied are appealed, and more than half of these are finally approved.

Other AFDC-SSI transfer programs exist in Los Angeles County, California; Rock County, Wisconsin; and Charleston, South Carolina. One recent survey indicated that only those programs that assist clients with the lengthy application and throughout the appeals process have been successful in transferring the clients to the proper programs.³

Oregon and Washington state personnel estimate that 5 percent of the AFDC population is eligible for SSI; by that yardstick, well over 13,000 Texas adults receiving AFDC are eligible for SSI. Based on a computer match of children on AFDC currently enrolled in special education, TPR estimates that as many as 91,000 Texas AFDC children may be eligible for SSI. In Washington and Oregon, 80 percent to 90 percent of children receiving SSI are enrolled in special education.

Recommendations

- A. The Legislature should require the Health and Human Services Commission (HHSC) to enter into a no-risk, contingency contract with a consulting firm to obtain Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) benefits for recipients of Aid to Families with Dependent Children (AFDC) who are eligible for those programs.**

Consultants should be knowledgeable in SSI and SSDI eligibility guidelines, determination processes, work programs and definitions of disabilities. The consultants' fees should be based upon the number of cases converted from AFDC to SSI or SSDI. The contract should contain performance requirements such as a minimum number of applications filed, reconsiderations requested, percentage of administrative law hearings filed, percentage of approved grants and time guidelines. It also should include a provision for training state workers to transfer AFDC cases to SSI and SSDI.

- B. The Health and Human Services Commission should organize a planning group involving the Texas Department of Human Services, Texas Education Agency and Texas Rehabilitation Commission to work with the consultant to improve workload coordination among the agencies.**

This initiative would require interagency cooperation at all steps of the eligibility and determination process. The group should aid the consultants by providing access to regulations, procedures, client records and any other necessary information.

The planning group should work with the consultant in training eligibility workers to adequately screen applicants for SSI and SSDI eligibility, and should prepare a progress report for the 1997 Legislature.

Implications

As noted above, Texas pays a substantial amount (35 percent) of the AFDC grant, while SSI and SSDI are fully paid by the federal government. Moving Texans with disabilities from AFDC to SSI and SSDI programs would benefit both the individuals involved and the state's bottom line. TPR estimates that Texans moved from AFDC to SSI and SSDI would receive the following *additional* federal benefits:

<u>Fiscal Year</u>	<u>New Federal Dollars to Texans With Disabilities</u>
1996	\$ 829,000
1997	15,843,000
1998	37,074,000
1999	63,802,000
2000	92,218,000

Moving people from AFDC to SSI should not increase the number of individuals on Medicaid, since AFDC recipients already receive Medicaid. The federal government continues to change Medicaid requirements, so many of the children who would be moved to SSI would have otherwise qualified for Medicaid on a long-term basis.

A consultant with knowledge and experience in SSI and SSDI eligibility and processing would ensure that the Texas Rehabilitation Commission's workload does not increase as a result of inappropriate referrals.

Fiscal Impact

TPR estimates that more than 100,000 Texas AFDC recipients may be eligible for SSI or SSDI. This population is too large to be processed in a five-year period, so case processing is assumed to begin at 100 per month and increase to 500 per month by the end of the second year. The 500-per-month level is assumed to remain constant over the next three years, resulting in 22,000 transfers over five years.

Applicants who apply for SSI and are subsequently approved receive federal payments for the entire approval period in the form of a lump-sum payment. The state is allowed to deduct its portion of AFDC payments paid out during the SSI/SSDI approval process from these lump-sum payments, and TPR assumes the state would do so. General revenue gains reported below represent the cumulative effect of these one-time deductions, as well as the state share of AFDC that would be covered by SSI and SSDI. These savings would accumulate from month to month and the state's AFDC budget must be adjusted appropriately to realize the savings. Administrative costs are based on a consultant contract expected to cost \$500,000 annually.

<u>Fiscal Year</u>	<u>Gain/(Loss) to the General Revenue Fund</u>	<u>Savings to the General Revenue Fund</u>	<u>Cost to the General Revenue Fund</u>	<u>Net Gain/(Loss) to the General Revenue Fund</u>	<u>Change in FTEs</u>
1996	\$ 35,000	\$ 6,000	\$500,000	\$ (459,000)	0
1997	665,000	431,000	500,000	596,000	0
1998	1,049,000	1,690,000	500,000	2,239,000	0
1999	1,049,000	3,089,000	500,000	3,638,000	0
2000	1,049,000	4,488,000	500,000	5,037,000	0

Endnotes

- 1 Interviews with Daniel Scarborough, funding policy specialist, Texas Assistive Technology Partnership, University of Texas at Austin, Austin, Texas, June 21, July 25 and August 16, 1994.
- 2 U.S. House of Representatives, Committee on Ways and Means, Overview of Entitlement Programs—1994 Green Book (Washington, D.C.: U.S. Government Printing Office, 1994), p. 57.
- 3 Interviews with Laura Lein, University of Texas School of Social Work, and Kathy Edin, Center for Urban Policy Research, Rutgers University, August 1994.

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Provide Supported Employment to Texans with Disabilities

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The State of Texas should provide more people with disabilities the opportunity for supported employment.

Background

Until about ten years ago, the only employment opportunities for people with severe mental and physical disabilities were in sheltered workshops doing piece work such as folding rags, usually at marginal salaries. Many people, even some vocational experts, believed that people with severe disabilities were incapable of participating in competitive employment—that is, working alongside individuals without disabilities, while earning equal wages.

The advent of supported employment in recent years has allowed individuals with disabilities to move into the competitive workplace. At least one poll has indicated that as many as 80 percent of people with disabilities would go to work if some of the barriers to their participation in the work force were removed.¹ "Supported employment" is competitive work that provides support services, such as a job coach, to assist an individual in obtaining and maintaining employment. Nationally, thousands of people with severe disabilities have entered the competitive work force with the help of employment specialists and supportive co-workers and employers.

The Arc, a national advocacy organization for people with developmental disabilities (formerly the Association for Retarded Citizens), published data in October 1993 that ranked states on supported employment efforts. Texas ranked *last* among states.²

In its supported employment programs in fiscal 1993, the Texas Commission for the Blind (TCB) served 144 clients and placed 28 in the work force, while the Texas Rehabilitation Commission (TRC) served 1,102 clients and placed 585 in the work force. Both commissions obtain funds for supported employment through the Federal Rehabilitation Act. In fiscal 1993, the Texas Department of Mental Health and Mental Retardation (TxMHMR), acting through community centers, served 487 clients in supported employment, but the number placed in the work force was not reported.³

TPR's preliminary analysis of supported employment programs for clients in institutions and in the community indicates that such programs produce substantial and quantifiable benefits. Costs for supported employment are greater on average than those for sheltered workshops. In five supported employment programs examined for a five-year period, costs per client ranged from \$2,032 to \$23,511, averaging \$6,478. By contrast, the average client cost for sheltered workshops was \$4,045. However, measurable benefits from supported employment also are significantly higher than those resulting from segregated employment programs. These include indicators of increased potential for client self-sufficiency and lower institutional costs, which can be as high as \$80,000 per client per year in mental health institutions. Case studies identified significant benefits to clients from supported employment, including greater integration into the community, higher functioning levels and, over time, greater client independence and autonomy. Overall, Texas prospers from the contributions to the economy by persons in supported employment.

A Supported Employment Summit sponsored in 1994 by the Comptroller's office brought together representatives of clients and their family members, advocacy groups, state agencies, service providers

and employers. An action plan was developed to assist persons with disabilities to obtain jobs in competitive employment with non-subsidized pay. The summit produced a "vision statement" outlining the participants' ultimate goals:

The State of Texas shall ensure that all Texans with disabilities have the opportunity and support necessary to work in individualized, competitive employment in the community and have choices about their work and careers.

The substance of the summit's action plan focused on client choice; no new funding for segregated employment; increasing the funds and number of people served through supported employment by 50 percent in five years; requiring all special education students to develop individual educational goals for future integrated employment; and using more untapped funding sources for supported employment.⁴

Transition from School to Work

Students receiving special education services are required by the federal Individuals with Disabilities Education Act (IDEA) to have an Individual Transition Plan (ITP) in place by the age of 16. The ITP can be prepared as early as the age of 12 if the child is at high risk of dropping out of school. It is designed to allow special education students a transition into employment and community living without a break in continuity and loss of support. The Texas Education Code has adopted the age of 16 as the requirement unless the child is at high risk.

The question of whether the age of 16 is too late to start an ITP was one concern addressed at the Supported Employment Summit. Another concern was that the ITP form does not list competitive employment as an option, indicating that educators may not fully appreciate the importance of preparing special education students for competitive employment.

The Texas Education Agency (TEA), TRC, TCB, TxMHMR, the Texas Department of Human Services and the Texas Employment Commission have signed a memorandum of understanding on transition planning for special education students. The understanding is intended to establish the responsibility of each agency for the provision of services necessary to prepare students enrolled in special education for a successful transition to life outside the public school system.

TRC provides for continuation after high school of services such as evaluation, planning, counseling, job training, job placement, transportation, job coaches and other needed supports. TRC budgeted \$407,000 in fiscal 1995 for such transition services. In fiscal 1995, TRC plans to serve just 405 students in transition planning services, although 2,425 are expected to be referred by school districts.⁵ However, if TRC plans to drop these services in fiscal 1996, as it has indicated in the agency's request for legislative appropriations, it will create a break in the continuity of services after graduation.⁶ For example, if a school district provides a job coach for a student working in supported employment, the job coach services would cease upon graduation. The job might, too.

Work Incentives

The primary sources of currently untapped funding for Texans with disabilities are the U.S. Social Security Administration (SSA) work incentive programs. According to SSA, 370,719 Texans with disabilities received monthly income support and medical coverage under Medicaid from SSA's Supplemental Security Income (SSI) program in December 1993.⁷ SSI, a federal income support program based on disability and need, was enacted by Congress in 1972.⁸ The program provides cash payments up to \$446 per month, plus medical support under the state-administered Medicaid program, to people who are disabled, aged or blind. "Disabled" under SSI means that a person has a severe physical or mental impairment expected to last for more than one year or result in death, and the impairment prevents him or her from doing substantial work.⁹ SSI support is available to adults and children. SSA estimates that

many people eligible for SSI are unaware of the disability benefit programs or have not applied for the support programs.¹⁰

The determination of disability for Social Security purposes is delegated to the individual states on the assumption that states will refer individuals to appropriate rehabilitation assistance within their state vocational rehabilitation programs. In Texas, this determination is made by TRC's Disability Determination Service.

SSA continually looks for ways to move people with disabilities from dependence on income support programs to self-support through work. A number of current work incentive programs are designed for people with disabilities who would like to return to or attempt work. These "work incentives" are little known to the public and are not widely promoted by SSA or TRC. As a result, they are not widely used by people with disabilities or rehabilitation service providers.

The original SSI statute provided a way for people with disabilities to pay for rehabilitation programs, either through private programs or state vocational rehabilitation programs. The Plans for Achieving Self Support (PASS) allows individuals to purchase employment-related goods and services with SSI that they would otherwise lose as a result of work activity. This provision is vastly underused as a funding source for rehabilitation services. As of June 1994, in Texas, there were only 154 PASS users, as compared to 1,411 in California.¹¹

In 1980, Congress amended the Social Security Act to remove some of the barriers preventing people from working. The fear of losing benefits before becoming self-supporting is the primary impediment to seeking self-supporting work. To overcome this barrier, the amendment changed the way SSI benefits are calculated when beneficiaries begin earning income, allowing them to earn more without losing all SSI benefits. Another change was the clarification against the loss of Medicaid. Many people with disabilities and their advocates still believe that work will result in the loss of support and medical care. This misconception is a major obstacle to seeking and securing work.

The amendments allow people effectively to recover 50 percent of their work-related expenses from SSI through a program referred to as Impairment-Related Work Expenses (IRWES).¹² Last year, 354 Texans took advantage of the IRWES work incentives.

SSI work incentives allow people with disabilities to purchase the work-related services they need (as opposed to the state purchasing them) and receive a rebate from SSI, maintaining Medicaid eligibility as they work to become self-supporting. These programs are excellent funding sources for people with disabilities who require support. TRC should help its clients obtain these funds.

The federal Rehabilitation Services Administration, the primary funding source for state VR programs, pays states based on the number of people with disabilities who are "successfully rehabilitated" (on the job for 60 days). Consequently, TRC counselors have incentives to concentrate on easier clients—those they can move quickly through the system. An individual counselor's performance is measured primarily by the number of cases closed under TRC's definition of "successfully rehabilitated." What is not measured is the number of people with more severe disabilities who do not get added to TRC caseloads because they would not produce a quick "successful rehabilitation." According to a private funding policy specialist, "creaming" the client caseload basically serves people who could usually pay for their own programs; altering the present system would free state resources for people with severe disabilities in supported work environments.¹³

The Texas Committee

The Texas Committee on Purchases of Products and Services of Blind and Severely Disabled Persons (the Texas Committee), created by the Legislature in 1975, assists disabled persons in achieving independence

through work and allows state agencies to meet affirmative-action requirements concerning the employment of disabled persons.¹⁴ Under the state set-aside program, state agencies are encouraged to buy products and services produced by persons with disabilities.

As TRC, TCB and TxMHMR move toward more competitive employment for people with disabilities, the Texas Committee has not put forward an initiative on supported employment, even though the statute gives it the authority to do so.

The Texas Committee designated a central nonprofit agency, Texas Industries for the Blind and Handicapped (TIBH), to provide administrative assistance for the set-aside program. TIBH is paid a 6 percent to 7 percent commission based on the gross sales of the products sold and services provided to state agencies, regardless of the amount of assistance from TIBH. For fiscal 1993, TIBH received about \$1.6 million in commissions; projected commissions for fiscal 1994 are \$1.8 million.

At a TxMHMR vocational administrators' workshop in August 1993, representatives of MHMR centers and state facilities voiced concerns about TIBH's role. One such concern was that TIBH's commission is based on gross revenue, not net revenue; therefore, no incentive exists to evaluate contracts for profitability.¹⁵

Recommendations

- A. Texas' health, human services and work force development agencies should adopt the vision statement of the Supported Employment Summit: "The State of Texas shall ensure that all Texans with disabilities have the opportunity and support necessary to work in individualized, competitive employment in the community and have choices about their work and careers."**
- B. The Texas Department of Mental Health and Mental Retardation (TxMHMR), Texas Rehabilitation Commission (TRC) and Texas Commission for the Blind (TCB) vocational funds, as well as any additional funding, should be redirected to increase the number of persons with disabilities employed in integrated settings by 50 percent by the year 2000.**

This would ensure that any new funds for vocational services would be spent on supported employment instead of sheltered workshops or segregated employment.

- C. A work group of TxMHMR, TRC, TCB and the Texas Education Agency (TEA) should be required to implement the action plan of the Comptroller's Supported Employment Summit. The Comptroller's office should monitor the implementation of this plan and prepare a progress report to the Legislature by November 15, 1996.**
- D. TEA's Individual Transition Plans should be changed to include a goal for competitive employment. TEA should study the effects of changing the Education Code to require the initiation of transition planning at age 14 for students with disabilities.**

The change to Individual Transition Plans should be implemented for school year 1995-96. TEA should report the results of the study for changing the age to 14 for transition planning to the Legislature by November 15, 1996.

- E. The Texas Legislature should fund at its current level the TRC strategy to provide a Transition Planning Program for Students with Disabilities.**
- F. TRC should create a position at its central office to train counselors to understand and use work incentives; review cases to ensure that SSI and work incentives are offered when**

applicable; and help clients through the SSI determination process. TRC should be required to provide this training to other state agencies along with training materials.

MHMR community centers' contracts with TxMHMR should include a provision that center staff determine the eligibility of their clients for SSI and work incentives. The contracts should require the training of counselors on Social Security work incentives to fund supported employment, and require related information be presented to clients and their families.

The counselors should determine if the client is a candidate for SSI or work incentives and assist their clients through the SSI determination process. People with cognitive difficulties require such assistance because they often cannot understand or work themselves through the complicated maze of determination, redetermination and appeals.

- G. The Texas Committee on Purchases of Products and Services of Blind and Severely Disabled Persons (the Texas Committee) should be active in the area of supported employment. Instead of designating a central nonprofit agency to administer the state set-aside program, the Texas Committee should contract directly for these services. The commission from the producers of services and goods should be limited to 4 percent, instead of the existing 6 percent, and that amount should go to the Texas Committee.**

This would require one or two staff positions to carry out administrative functions for the Texas Committee. The salaries of these administrative personnel would be paid from the limited 4 percent commission. Any additional earnings should be directed to supported employment endeavors in the state.

Implications

Supported employment gives people with disabilities the opportunity to become independent. These recommendations should help the state encourage supported employment initiatives by requiring agencies to work together and continue to increase the number of people in supported employment.

By obtaining SSI and SSI work incentives for more people with disabilities, more vocational funds will be made available to help people with severe disabilities move into supported work environments.

Fiscal Impact

The cost of creating a social services administrator position at TRC's central office, including salary, associated costs, capital equipment and electronic data processing, would be as follows:

Fiscal Year	Cost to the General Revenue Fund	Change in FTEs
1996	\$51,000	+1
1997	47,000	+1
1998	47,000	+1
1999	47,000	+1
2000	47,000	+1

The other recommendations would have no impact on general revenue.

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Endnotes

- 1 Texas Planning Council for Developmental Disabilities. "Studies show accessibility and equality slowly improving. *Highlights*, Austin, Texas, July-September 1994, p. 4.
- 2 The Arc. *A Status Report to the Nation on Inclusion in Employment of People With Mental Retardation*, by Dr. Sharon Davis (October 1993), pp. 16-17.
- 3 Texas Comptroller of Public Accounts. "Supported Employment Summit," July 21 and 22, 1994. (Handout materials.)
- 4 "Supported Employment Summit."
- 5 Texas Rehabilitation Commission. *Request for Legislative Appropriations. Submitted to the Governor's Office of Budget and Planning and the Legislative Budget Office for Fiscal Year 1996 and 1997*. (Austin, Texas, August 3, 1994), pp. 47-48.
- 6 Texas Rehabilitation Commission. *Request for Legislative Appropriations*.
- 7 U.S. House of Representatives, Committee on Ways and Means. *1994 Green Book: Overview of Entitlement Programs* (Washington, D.C.: U.S. Government Printing Office, 1994), p. 249.
- 8 U.S. Congress. *Social Security Act*, Title VI, 1972.
- 9 U.S. Congress. *Social Security Act*, Title XVI, 1972.
- 10 Interviews with Daniel Scarborough, funding policy specialist, Texas Assistive Technology Partnership, The University of Texas at Austin, June 21, July 25 and August 16, 1994.
- 11 Interview with Jim Carey, Office of Supplemental Security Income, Social Security Administration, Baltimore, Maryland, August 3, 1994.
- 12 U.S. Congress. *Social Security Act Amendments*, 1980.
- 13 Interviews with Daniel Scarborough.
- 14 V.T.C.A., Human Resources Code §122.001.
- 15 Letter from Addie Drury, Standards and Quality Assurance, Texas Department of Mental Health and Mental Retardation, to the Texas Committee on Purchases of Products and Services of Blind and Severely Disabled Persons, August 6, 1993, p. 2.

Encourage Personal Responsibility

Public assistance was designed as temporary help for people in need, not as a permanent alternative to work. Hence, one of the common goals for welfare reform in every state is to encourage recipients to assume personal responsibility. Time limits on Aid to Families with Dependent Children (AFDC), increasing child support collections and altering rules that discourage marriage, are among the most common reform efforts in this area.

Time-limited programs are tied to education, job training and placement so that recipients are not "thrown out into the cold." These programs also require recipients to enter into self-sufficiency contracts, which outline specific goals and time periods. Clients who do not meet these goals within the time limits and lose AFDC cash benefits customarily receive other support such as Medicaid and child care for at least one year.

In this section, we propose limiting AFDC benefits in Texas to two years for employable recipients, and limiting benefits to individuals with college degrees. Several other proposals would adjust benefits so as to encourage the preservation of two-parent families.

Many state reform proposals include child support initiatives, a key to limiting the growth of public assistance caseloads. In Texas, the Comptroller's office has worked with the Senate Joint Interim Committee on the Family Code in examining child support issues and drawing up recommendations to strengthen child support establishment and enforcement.

This section presents 11 separate recommendations in the area of child support, several of which were proposed originally by the Comptroller's Texas Performance Review.

Child Support Enforcement

Child support enforcement remains at the forefront of the growing national debate on helping families become more self-sufficient. Caseloads are growing because of changes in

federal law that expand child support services to non-AFDC clients. Nationally, caseloads have grown from 7.5 million cases in 1983 to 15.2 million in 1992.¹ Texas' caseload is projected to quadruple from 1985 to 1995, with more than a million cases statewide by the end of fiscal 1997.² (See Figure 1.) Both nationally and in Texas, this growth is driven by many factors, including rising divorce rates and the increase in births to never-married women and teens.

Figure 1
Texas Attorney General Child Support Enforcement
Expenditures, Caseload and Collections
Fiscal 1985-1995

Fiscal Year	Child Support Enforcement Expenditures (in millions)	Average Monthly Caseload	Total Child Support Collections (in millions)
1985	\$11.3	204,219	\$31.9
1986	16.4	226,703	49.7
1987	18.9	281,384	70.1
1988	24.0	336,669	96.2
1989	35.8	401,622	136.6
1990	57.4	397,732	180.6
1991	64.2	501,193	211.7
1992	79.9	673,764	301.7
1993	108.4	751,363	370.0
1994*	119.4	664,250	420.0
1995*	119.5	835,000	485.5

* Projected.

SOURCES: Legislative Budget Board and Office of the Attorney General.

The federal government requires states to operate child support enforcement (CSE) programs, established in 1975 by Title IV-D of the Social Security Act. This law was designed to limit the growth of public assistance caseloads by ensuring that parents assume the primary responsibility of providing for their children's financial security.

Major amendments to this law in 1984 and provisions of the Family Support Act of 1988 were designed to strengthen enforcement. States' CSE responsibilities expanded from recovering public assistance expenditures from non-custodial parents to assisting any custodial parent in child support enforcement if such services were requested.

The Office of the Attorney General (OAG) administers Texas' CSE program. The CSE staff helps families who receive AFDC benefits to locate absent parents, establish paternity and child support orders, enforce those orders and collect payments. Staff also must provide these services to non-AFDC families who apply for them. Some counties have set up registries to facilitate CSE collection and recordkeeping functions.

A substantial backlog in caseloads, exacerbated by delays in implementing automated systems, has drawn increasing criticism of the OAG operation. Many acknowledge that the agency's CSE cases are difficult to work and often involve paternity disputes, obligors who are in prison, welfare recipients or others unable to pay support. In some cases, support has not been sought in a timely fashion. In all, only 21 percent of the approximately 664,250 cases on file in fiscal 1994 received support payments as a result of OAG actions.³

Of 332,000 AFDC cases in fiscal 1994, about 30 percent had court-ordered child support obligations established. Of these court-ordered cases, only 31 percent were paying. Thus, only 9 percent of all AFDC cases are receiving child support payments. Non-AFDC child support cases accounted for 50 percent of all cases. Of these, 64 percent had court-ordered obligations and 51 percent were paying.⁴

The OAG has improved some areas of enforcement. In fiscal 1988, Texas ranked 38th nationally in the number of paternities established; today, Texas ranks third. Establishing the father's legal identity is necessary before a court can order child support. The OAG increased its paternity establishments from 6,010 cases in fiscal 1989 to 32,202 in fiscal 1994, but paternity still remains to be established for more than 200,000 children.⁵

The OAG has worked to establish more paternities in hospitals through a voluntary program. By the end of fiscal 1994, this program included 255 hospitals.⁶ No data is available to determine how many paternity establishments were directly related to this program.

In addition, OAG's efforts to intercept more federal income tax refunds have paid off. This program resulted in about \$35.1 million in child support collections for fiscal 1993, nearly

double the total in 1989. In 1993, 47 percent of cases had child support orders in place and 44 percent of these court-ordered cases were paying.⁷

The OAG has instituted a New Hire Reporting Program in which 180 Texas businesses have reported more than 12,000 new hires. This effort has resulted in 890 matches for CSE purposes. The OAG also has a pilot program to speed the CSE administrative process.

Despite these recent improvements, with slightly less than half of its total caseload having court orders for child support and only 44 percent of these cases categorized as paying, the OAG falls far short of the goal of parental support for every child.⁸

The Clinton administration's proposed national welfare reform plan would change child support programs substantially to encourage parents to support their children whenever possible rather than allow them to depend on public assistance. The plan would:

- require hospitals to participate in universal paternity establishment;
- require public assistance applicants to help identify and locate their absent parents before receiving benefits;
- require regular updating of child support awards;
- impose new penalties, including suspension of driver's licenses, for obligors who refuse to pay court-ordered support; and
- establish a national child support clearinghouse to track payments and locate parents who flee across state lines to avoid paying support.

In 1991, the Comptroller's Texas Performance Review report, *Against the Grain: High-Quality, Low-Cost Government for Texas*, contained 15 recommendations addressing the state's child support program. The 1993 Legislature adopted many of those recommendations intact or in a modified form.

The Legislature's Interim Committee on the Family Code is examining additional child support issues and will report its recommendations before the 1995 legislative session. This

committee has considered mandatory hospital participation in the paternity establishment program; suspension of driver's and professional licenses for non-payment of child support; creation of a central registry of child support orders in Texas and the U.S. to monitor payments; creation of a statewide paternity registry; requirements for the IV-D agency to certify applicants before determining public assistance eligibility; expanded use of administrative review to speed up the handling of child support enforcement cases; requirements for businesses to report new hires; uniform wage withholding orders; and creation of motor vehicle title liens for past-due child support arrearages.

Many of the recommendations in this section address the same issues. Implementing these measures would save money for Texas' public assistance and health programs, increase revenues and—more importantly—provide additional support for Texas children.

Endnotes

- ¹"It's Not Easy, Says State Worker," *Austin American-Statesman* (August 27, 1994), p. ____.
- ²Memorandum from Alice Embree to Arlene Pace, Office of the Attorney General, Austin, Texas, September 21, 1994).
- ³Memorandum from Alice Embree to Arlene Pace.
- ⁴Memorandum from Alice Embree to Arlene Pace.
- ⁵Memorandum from Alice Embree to Arlene Pace.
- ⁶"State Child Support Office Under Fire," *Austin American-Statesman* (August 30, 1994), p. ____.
- ⁷"State Child Support Office Under Fire," p. ____.
- ⁸Memorandum from Alice Embree to Arlene Pace.

Limit AFDC Benefits to 24 Months for Employable Recipients

Texas' Aid to Families with Dependent Children (AFDC) program should limit benefits to 24 months over a lifetime for employable recipients.

Background

Time limits on benefits are the cornerstone of President Clinton's welfare reform package. The plan was designed to shift the focus of welfare from providing checks to promoting work. The President has said, "No one who can work should be able to stay on welfare forever."¹

Active participation in the Job Opportunities and Basic Skills (JOBS) training program is one of the keys to self-sufficiency. Under the Clinton plan, AFDC recipients who cannot secure employment after two years must participate in a state-sponsored work program, short-term subsidized jobs in the public or private sector. Other crucial points of the Clinton proposal include preventing dependence on public assistance, rewarding work, enforcing child support and allowing families to accumulate savings through Individual Development Accounts.

AFDC clients commonly receive benefits for one- or two-year "spells," leave the program and return again. State time-limited programs are tied to education, job training and placement to ensure that individuals leave the welfare rolls permanently. Programs also require recipients to enter into "social contracts" that outline specific goals the recipients must meet within stated time periods. Clients who do not meet these goals within the time limits and lose AFDC cash benefits customarily receive other support such as Medicaid and child care for at least one year. Most states cut benefits to the adult, leaving the children eligible.

In Oregon, the proposed two-year AFDC limit is preceded by life skills and General Educational Development (GED) certificate training, job training and placement services and drug and alcohol treatment and rehabilitation. All options may include community work and job search programs if recipients are still unemployed after two years.

The Wisconsin "Work Not Welfare" plan—a cooperative effort between the public and private sector—involves 1,000 AFDC recipients who pledge to work for their benefits. Within 30

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days they begin work or training; after one year they must be working in a private-sector job for pay or in a public job in exchange for benefits; after two years, cash benefits end but transitional benefits (child care and Medicaid) continue for one year.

Michigan has one of the most aggressive time-limited AFDC plans. Beginning in October 1994, if an AFDC recipient is not participating in JOBS after one year of benefits, the case is closed for the entire family. Since 1992, all AFDC recipients have entered into social contracts that require them to work at least 20 hours per week, enter a job training program or work in community service after 90 days. This is a statewide demonstration project.

About 22 states are implementing or developing time-limited AFDC benefits statewide or regionally. Since all such projects are relatively new, no AFDC recipient has yet been dropped from the program because of time limits.

More than half of Texas' adult AFDC recipients have been receiving benefits more than two years; almost 11 percent, about 79,000 individuals, have received benefits for 10 years or more, according to the Texas Department of Human Services (DHS). National statistics show that 25 percent of AFDC recipients receive benefits for eight years or more, compared to about 15 percent in Texas.²

Percentage of AFDC Recipients by Total Period, Fiscal 1993

Time on AFDC (Basic)	All Spells (Percent)
Up to 1 Year	32.5%
1-2 Years	16.3
2-3 Years	10.9
3-4 Years	8.2
4-5 Years	6.7
5-6 Years	5.1
6-7 Years	3.0
7-8 Years	2.6
8-9 Years	2.1
9-10 Years	1.9
10 + Years	10.7

The 1993 Legislature directed DHS to study time-limited AFDC benefits in Texas. This report, due to be released in December 1994, will examine the state fiscal impact and the impact on support services and possible exemptions, but not necessarily the demographic characteristics of clients who have received benefits for more than two years. Such information, however, is vital in determining the characteristics of those affected and how many people are potentially employable.

Recommendation

The Texas Department of Human Services should implement a two-year, time-limited AFDC demonstration project in areas with low unemployment and an effective JOBS program placement rate.

Before establishing the pilot program, DHS should examine the characteristics and demographics of Texas AFDC recipients who have received benefits for more than two years. The study, which should include information from recipient focus groups, should be completed by January 1996. Other states including California, Minnesota, Vermont and Washington have conducted "cohort" studies to track AFDC usage over time.³ The Legislature could select several options for the Texas demonstration project.

Implications

Time limits on AFDC benefits are controversial. Though it appears that terminating benefits after two years would save money, accompanying services—education, job training, child care, transportation and placement—are expensive. Many states provide transitional Medicaid and child care benefits while recipients work; other states continue to offer all benefits to unemployed recipients past the imposed time limit.

In Texas, JOBS provides AFDC recipients with education and support services to the tune of \$55.3 million in state and federal money in fiscal 1994. An assessment of the JOBS program by the State Auditor's Office found that only 69 percent of potential federal funds are

drawn down and that much of the money used for child care is spent so inefficiently that several areas run out of funding early in the year. A time-limited program cannot work without examining child care funding for working AFDC parents.

Creating jobs for Texas' hundreds of thousands of AFDC recipients would be very expensive. Administrative costs would rise for record keeping and tracking, which could create additional quality control errors.

Time-limited programs often are tied to reforms of asset and income disregard limits, which are intended to encourage work. Nebraska and Montana have hired consultants to construct models that evaluate the results of different variables related to time limits.

DHS recommends that AFDC benefits be limited to a cumulative two years with a "freeze-out" period of three years in which clients cannot receive any benefits. This approach would simplify and limit administrative activities.

Opponents of time limits on AFDC benefits believe two years is not enough time to educate or train people to achieve long-term self-sufficiency. The minimum wage is too low, child care is not available and such limits could exacerbate homelessness, child neglect and poverty, they believe. Also, if children's benefits are terminated along with the adult's, additional costs may occur in AFDC and other programs. Children may be placed with a relative or in foster care, in which case AFDC benefit costs would remain the same or increase.

Supporters of time limits believe that welfare should not last forever. The Heritage Foundation has stated that the current welfare system subsidizes illegitimacy, divorce and dependency.⁴

The proposed demonstration project would require a federal waiver.

Fiscal Impact

Estimate for a 10,000-person demonstration project, assuming that the participants are already enrolled in the JOBS program:

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<u>Fiscal Year</u>	<u>Total Savings</u>	<u>Federal Funds</u>	<u>General Revenue</u>
1996	(\$231,000)	(\$115,000)	(\$115,000)
1997	0	0	0
1998	212,000	131,000	81,000
1999	499,000	308,000	191,000
2000	885,000	546,000	339,000

Potential additional costs:

<u>Year</u>	<u>Subsidized Jobs</u>	<u>Child Care</u>	<u>Recipients</u>
1996	\$0	\$0	0
1997	0	0	0
1998	790,000	373,000	184
1999	1,862,000	878,000	433
2000	3,302,000	1,558,000	768

Endnotes

- ¹Governor Bill Clinton and Senator Al Gore, *Putting People First: How We Can All Change America* (New York: Time Books, 1992), p. 164.
- ²Mary Jo Bane and David C. Ellwood, *Welfare Realities: From Rhetoric to Reform* (Cambridge, Massachusetts: Harvard University Press, 1994), p. ____
- ³Mark Greenburg, *Beyond Stereotypes* (Washington, D.C.: Center for Law and Social Policy, July 1993), p. 1.
- ⁴The Heritage Foundation, "Combating Family Disintegration, Crime, and Dependence: Welfare Reform and Beyond" (Washington, D.C., April 8, 1994), p. 7. (Newsletter.)

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Limit Benefits Based on Educational Level

Texas' Aid to Families with Dependent Children (AFDC) program should limit benefits for individuals with college degrees.

Background

Persons with college degrees should have limited access to AFDC benefits. In three Wyoming counties, any AFDC recipient who earns either an associate or bachelor's degree while receiving public assistance is eligible for no more than six additional months of benefits. Any recipient pursuing a bachelor's degree beyond the sixth year or an associate degree or vocational program beyond the fourth year is ineligible for benefits. Any individual pursuing a second degree is ineligible for benefits.

These limitations do not apply to individuals who are temporarily ill or injured, or to those who are physically or mentally incapacitated.

Recommendation

The Legislature should require the Texas Department of Human Services (DHS) to limit benefits to six months for AFDC recipients with college degrees.

Implications

According to DHS estimates, this recommendation would affect about 0.5 percent of the state's AFDC caseload. DHS estimates that by fiscal 2000, this program would reduce AFDC grant cases by 995 per month. The recommendation would require a waiver, a rule change and a state plan change.

Fiscal Impact

DHS estimates that AFDC payment savings from fiscal 1996 to 2000 would total about \$5.2 million, of which the state's share would be \$1.98 million.

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<u>Year</u>	<u>Savings</u>	<u>Federal</u>	<u>State</u>	<u>Cases With Grants Reduced Per Month</u>
1996	\$942,859	\$585,515	\$357,344	818
1997	990,002	611,227	378,775	859
1998	1,039,502	641,789	397,713	902
1999	1,091,477	673,878	417,599	947
2000	1,146,051	707,572	438,479	955



Create a Working Group to Improve Child Support Enforcement

The Governor's Office and the Office of the Attorney General should create a working group to increase child support collections.

Background

Most of Texas' largest urban counties, including Tarrant, Bexar, Harris and Travis, provide services to custodial parents who are not receiving their court-ordered payments. These counties pay for their programs with no financial aid from the state.

The Office of the Attorney General (OAG) has cooperative agreements with 19 counties that maintain local child support programs. For example, under some of the agreements, county employees monitor cases to ensure that child support is paid as ordered by the court, and if the support is not paid, the county refers the case to OAG for enforcement. Additionally, under other cooperative agreements, counties receive, process and disburse child support payments on behalf of OAG.

Under federal law, federal aid is available to states and the states' designees to fund child support enforcement activities. The state could make this funding available to county programs. Texas counties, however, have not sought this aid because the law would require them to forfeit all fees they currently receive for performing various state functions, such as those related to adult probation and the enforcement of child support court orders. For example, Tarrant County collects about \$1 million annually in child support processing fees alone.¹

Even if this requirement were removed, however, other barriers to federal support exist. As mentioned above, counties currently work with state employees on child support cases without any reimbursement. The state cannot, however, distribute federal Social Security Title IV-D money to eligible counties for child support enforcement unless county recordkeeping and procedures are improved to include securing applications for non-Aid to Families with Dependent Children (AFDC) services from custodial parents entitled to child support, and to clearly differentiate between Title IV-D and non-Title IV-D services.

The "Complaint-Driven" Application System

A major barrier to increasing child support collections is the current "complaint-driven" child support application system. If a family that is not receiving AFDC wants to obtain its court-ordered child support from a delinquent (non-AFDC) parent, the custodial parent must file an application that amounts to a request for assistance. This is a federal requirement. However, many custodial parents are afraid of retaliation from the non-custodial parent.² In this complaint-driven system, only about one third of the parents pay. In systems where a simple reminder letter is sent from the county to the delinquent non-custodial parent, the pay rate jumps to 70 percent.³

To address this problem, OAG's Child Support Enforcement (CSE) program has established cooperative agreements with seven counties to monitor child support cases. Unlike the agency's other agreements with counties, this project has an automatic, "self-starting" enforcement mechanism. When payments become more than 10 days late, a letter is sent out from the county, triggering early intervention to prevent further delinquency. The intervention process includes an automated referral to CSE.⁴ For example, Bexar County has been involved in an enforcement demonstration project with OAG since 1990. Bexar County is electronically linked with OAG, allowing the county to update local support payment histories on-line, and to electronically transmit child support payments to OAG.⁵

Recommendation

The Governor, in cooperation with the Attorney General, should create a working group of county, state and federal child support officials to investigate strategies to maximize federal assistance for county staff working on child support collections, reduce state non-Aid to Families with Dependent Children (AFDC) child support caseloads and eliminate the "complaint-driven" application system.

Expanding cooperative agreements with counties could increase the number of counties monitoring delinquencies, which in the long run should save money. Success rates are much higher and costs much lower when non-paying child support offenders are brought into compliance as quickly as possible.⁶

County officials and their support staff already work child support cases. If they also receive applications for AFDC services at the county level, it is possible that federal funds could be passed through the state to the counties.⁷ However, county recordkeeping and procedures would have to be improved so county employees could keep track of the services they provide that qualify for federal reimbursement.

Implications

By transferring part of the non-AFDC child support caseload to the counties, the state could reduce its child support enforcement backlog. Expanding the delinquency monitoring effort to more counties also should reduce state costs. Delinquencies resolved at the county level, or with limited involvement at the state level, would help reduce the ever-increasing child support caseload.⁸

Eliminating the current application system could drastically reduce non-AFDC caseloads because more delinquent parents pay up when they receive a letter from the county than when they know the custodial parent must file a complaint to force them to pay.

An existing federal "maintenance-of-effort" requirement for administrative matching federal funds could require counties to maintain current levels of spending for child support enforcement. This would spur program expansion because the county would be obligated to spend all of its commitment as a requirement of the federal match. The federal match money could be passed along to the counties along with some of OAG's non-AFDC caseload, which should financially benefit the counties. This would allow OAG to concentrate its efforts on the more difficult-to-work AFDC cases, which draw additional federal money into the child support program.

A self-starting system would remove the adversarial aspect of the current system and the custodial parent's fear associated with filing a complaint against a non-custodial parent. As mentioned previously, self-starting systems often achieve a 70 percent pay rate, compared to a one-third pay rate for complaint-driven systems.⁹

Fiscal Impact

Improving child support collection could result in savings and cost avoidance for the federal, state and local governments. The amount of the savings and cost avoidance is not quantifiable because, without a unified effort among all levels of government, reliable information cannot be compiled.

TPR believes that eliminating the "complaint-driven" application system could double the pay rate on non-AFDC child support cases.

Endnotes

- ¹ Interview with Norris Branham, director, Tarrant County Domestic Relations, Fort Worth, Texas, August 1994.
- ² Interviews with Howard Baldwin, Jr., attorney-director of Intergovernmental Affairs, Texas Department of Protective and Regulatory Services, Austin, Texas, during June, July and August, 1994.
- ³ Public testimony by Charles Childress, special counsel, Office of the Attorney General, Texas House Health and Human Services Committee Interim Study on Welfare Reform, Austin, Texas, June 20, 1994.
- ⁴ Public hearing of the Texas House Human Services Committee Interim Study on Welfare Reform, June 20, 1994. (Notes).
- ⁵ Interview with Howard Baldwin, Jr.
- ⁶ Public hearing of the Texas House Human Services Committee Interim Study on Welfare Reform, June 20, 1994.
- ⁷ Interview with Howard Baldwin, Jr.
- ⁸ Interview with Howard Baldwin, Jr.
- ⁹ Public Testimony by Charles Childress.



Improve the State's Medicaid Cost Recovery Program

The Legislature should reappropriate half of the Medicaid costs recovered from third-party insurance sources in medical assistance only cases to the Attorney General's Child Support Enforcement Program as an incentive to improve collections.

Background

The Office of the Attorney General (OAG) administers the Child Support Enforcement (CSE) program mandated by the federal Social Security Act. CSE is required to help families locate absent parents, establish paternity and child support orders, and collect child support payments.

In addition, the CSE program is responsible for ensuring that persons whom the courts have ordered to pay child support provide medical support as well. CSE also provides information to assist the Texas Department of Health (TDH) in recovering children's medical costs when they are entitled to medical benefits from third-party insurance resources. When legally responsible persons do not provide medical insurance or cash medical support, the state and the federal government pick up the tab through Medicaid programs, known as medical assistance only (MAO), for those who are income-eligible.

In fiscal 1994, the state processed more than 6.9 million MAO recipients, and together the state and the federal government spent about \$872 million on MAO recipients' medical care.¹ The state recovered costs on only about 9 percent of the MAO recipients, capturing an estimated \$78 million total, of which almost \$27 million was returned to Texas.²

Since 1990, CSE has participated in an interagency contract with TDH through its third-party resources program.³ The program attempts to recover children's medical costs paid by Medicaid if the children were entitled to private carrier coverage. As part of the contract, TDH pays CSE 25 percent of the state's share of any recoveries related to a TDH-CSE computer tape match.⁴

By federal mandate, the Texas Department of Human Services and TDH routinely refer MAO cases to CSE. However, the MAO cases are rarely enforced.⁵ As a result, only a small percentage of the information on MAO clients is conveyed to TDH's third-party recovery program.

One of the main reasons for CSE's failure to enforce MAO cases is that CSE does not have the capability to work MAO cases with its limited automation resources and staffing. The system in place does not identify these types of cases because it was developed before MAO cases became a significant part of the workload. CSE is already struggling with an ever-increasing caseload without considering the additional MAO cases. To help remedy the situation, the Texas Child Support Enforcement System (TXCSES), a new \$17 million-plus automation system, is scheduled to begin February 1, 1995.⁶

Federal law provides an incentive for states to recover costs through its federal state split for Medicaid and Aid to Families with Dependent Children (AFDC) costs recovered from other providers. By state law, the state's share of the AFDC split is reappropriated to the CSE program. However, the state's share of Medicaid (non cash assistance) money recovered goes to general revenue—not CSE. Therefore, CSE has limited financial incentive to recover MAO funds, especially in light of their backlog of regular child support cases.

Recommendation

The Legislature should reappropriate half of the state's share of Medicaid costs recovered from third-party insurance resources to the Attorney General's Child Support Enforcement program (CSE).

Attempting cost recovery on medical assistance only (MAO) cases will ensure the cases are worked and provide a new revenue source for the state. CSE can use the additional funding to expand and improve its program.

The Legislature should make the additional appropriations contingent upon the Comptroller's certification that the increase in cost recovery of MAO cases is in excess of the current 600 new cases per month.

Implications

If the MAO caseload is not worked as a priority when TXCSES is implemented, an opportunity to recover these funds will be lost because the claim evaluation period will expire.

Fiscal Impact

A key component to recovering the MAO money is TXCSES's startup in February 1995. MAO caseload data could be added in increments over the first operating year, and the caseload is assumed to remain constant after February 1996. A six-month lag from data entry to cost recovery is scheduled to allow for processing time and system debugging. The estimated caseload does not include the estimated 52,000 recipients currently worked monthly.⁷

Based on Texas population trends, about 40 percent of the MAO caseload has group health insurance through an employer. Medicaid aggregate statistics indicate half of the caseload is active and recoverable at any time.⁸ The average cost per recipient paid in fiscal 1994 is assumed to remain constant through fiscal 2000. Half of the recipient cost is assumed recoverable through third-party resources. The state share of the cost recovery is assumed to average 35 percent through fiscal 2000.⁹ Savings over five years are summarized below. Since this is a conservative estimate of the potential cost recovery, additional actual cost recoveries should be allocated according to the recommended distribution.

<u>Fiscal Year</u>	<u>Gain/(Loss) to General Revenue Fund</u>	<u>Gain/(Loss) to Attorney General CSE</u>	<u>Gain/(Loss) to Federal Government</u>
1996	\$ 5,821,000	\$ 5,821,000	\$21,621,000
1997	10,746,000	10,746,000	39,915,000
1998	10,746,000	10,746,000	39,915,000
1999	10,746,000	10,746,000	39,915,000
2000	10,746,000	10,746,000	39,915,000

Endnotes

- ¹ Texas Department of Health, "FY 93-94 AFDC and Medicaid Recipient Months and Pure Premiums," Austin, Texas, August 24, 1994. (Interoffice communication.)
- ² Interview with Terry Cottrell, Third Party Resources Program, Texas Department of Health, Austin, Texas, August 1994; interview with Ray Morales, Budget, Texas Department of Health, Austin, Texas, August 1994; and Texas Department of Health, "Monthly TPR Update Control Totals," Austin, Texas, August 9, 1994. (Computer printout.)
- ³ Interview with Terry Cottrell.
- ⁴ Interview with Terry Cottrell.

Endnotes *(continued)*

- 5 Interview with Kelly Evans, attorney, Bledsoe, Brown, Evans & McCullough, Austin, Texas, August 1994; and interviews with Howard Baldwin, Jr., attorney-director of Intergovernmental Affairs, Texas Department of Protective and Regulatory Services, Austin, Texas, June and August 1994.
- 6 Federal regulations require the system to be implemented by October 1995.
- 7 Interview with Terry Cottrell.
- 8 Interview with Terry Cottrell.
- 9 Interview with Howard Baldwin, Jr.



Increase Cash Medical Support Payments

The Legislature should strongly encourage the Office of the Attorney General and the Department of Health to work together to maximize cash medical child support payments in cases where private insurance is not available.

The Health and Human Services Commission (HHSC), the Office of the Attorney General (OAG) and the Texas Department of Health (TDH) have worked to improve third-party reimbursement for medical support for children in Aid to Families with Dependent Children (AFDC) programs in response to recommendations made in TPR's *Against the Grain*. Among factors limiting this effort are the increase in employers who have reduced or eliminated their employees' health insurance benefits; the large number of absent parents of AFDC and non-AFDC Medicaid children who are unemployed or under-employed in low-wage jobs; and the variation in health insurance benefit packages related to costs of coverage, excessive premiums and high deductibles.

Texas law also lacks certain provisions necessary to comply with federal requirements, limiting the effectiveness of third-party recovery. The federal Omnibus Budget Reconciliation Act of 1993 (OBRA 93) requires states to enact laws designed to decrease Medicaid expenditures through better medical support enforcement. A few provisions remain to be enacted by the Legislature that would bring Texas law into compliance with OBRA 93 and help remove obstacles to enrolling children in health insurance coverage. One such provision would prohibit insurers from taking into account a person's Medicaid status when enrolling the person, or when making benefit payments. OBRA 93 also requires insurers and employers to permit the child to be enrolled without restrictions at the request of the custodial parent, the state Medicaid agency or the state child support enforcement agency. Finally, this federal law prohibits insurers and employers from disenrolling a child, except under specific circumstances.

Available data indicate that 35 percent to 40 percent of the employers of non-custodial parents of Medicaid children do not provide health insurance benefits to their employees. Even if OAG and TDH operate at maximum efficiency and effectiveness, thousands of AFDC and non-AFDC Medicaid children will never have access to private, employer-based group health insurance coverage. State Medicaid recoveries will continue to suffer as a result.

Under current federal law, state child support enforcement agencies under the Social Security Act, (IV-D agencies), are required to collect and distribute cash medical support as designated in the child support order. The cash medical support is assigned to the state Medicaid agency. Federal law and regulations require OAG, the IV-D agency, to distribute this money to TDH, the state Medicaid agency, to help offset Medicaid expenditures.¹

Cash medical support collections may benefit the state when collected in Medicaid cases, particularly when the non-custodial parent does not have access to a group health insurance plan. In AFDC cases, the amount collected counts as an AFDC collection for federal incentive purposes. OAG receives an incentive payment from the federal government for child support collected on an AFDC case. Thus, cash medical support collected on AFDC cases has the potential to increase federal payments to the state.

These cash medical collections are also assigned to the state Medicaid agency, partially offsetting state Medicaid expenditures in both AFDC and non-AFDC medical assistance only (MAO) cases. Collection of cash medical support in appropriate cases could yield substantial revenues to the state with efficiency and predictability beyond that of third-party recovery programs alone.

General Government

OAG is implementing a new automated child support enforcement system in February 1995. This system will enhance OAG efforts to collect child support and medical support. Increasing cash medical support collections should be routine upon installation of the new system. More timely recovery and enforcement of medical support orders will allow the state to receive additional revenue to offset Medicaid expenditures.

Cost avoidance from enforcement of medical support orders is significant. According to OAG and TDH, the state has avoided \$2.6 million in fiscal 1994 in-state Medicaid expenditures due to the successful enrollment of AFDC and non-AFDC Medicaid children in health insurance plans by the child support program.² Despite the real benefit to the Medicaid program, OAG receives no federal incentive payments for successfully enforcing medical support orders. As a result, medical support enforcement is viewed as draining resources from the child support program.

Since OAG does not receive a federal incentive payment for the costs of successfully obtaining health insurance coverage for dependent children, all funds to improve medical support enforcement must be drawn from revenue that supports efforts to collect cash child support. Since the primary mission of the agency is to increase child support collections, medical support enforcement competes to some extent with resources directed at that goal.

OAG and TDH have enacted an interagency agreement intended to assist OAG in defraying costs associated with medical support enforcement. The agreement pays OAG 25 percent of the state's share of all Medicaid expenditures collected through third-party recovery attributed to successful medical support enforcement. This agreement generated only \$14,500 in additional funds for OAG child support functions in fiscal 1993.

Other states have provided incentive bonus plans that are more successful at rewarding medical support enforcement. Minnesota and Wisconsin provide incentive payments that encourage greater recoupment. Payment of an incentive should eliminate the drain on traditional child support enforcement services and allow OAG to improve its medical support enforcement program.

HHSC retained a private consulting firm to implement TPR's *Against the Grain* recommendations. As part of this initiative, TDH currently pays a cash incentive of \$39.00 to a private third-party recovery firm for every Medicaid child successfully enrolled in health insurance coverage.³ With the installation of the new child support system, OAG's medical support enforcement activities will be automated, allowing many of these cases to be identified and worked more easily for medical support, reducing the need for follow-up recovery operations. TDH's incentive payment concept used in its third-party recovery contract could be applied to OAG under its newly automated system. It could provide a similar cash incentive payment to OAG on a front-end performance-based contract arrangement for every Medicaid child successfully enrolled in health insurance. Legislative action could also provide incentive payments by appropriating a portion of the state's share of cash medical support collected to OAG for expenses related to the collection and distribution of cash medical support in AFDC and non-AFDC Medicaid cases.

Recommendations

- A. **After installation of the automated child support collection system at the Office of the Attorney General (OAG), the Legislature should strongly encourage OAG's Child Support Enforcement (CSE) Division to maximize the collection of medical child support. OAG should be encouraged to establish cash medical child support orders on AFDC and non-AFDC Medicaid cases when private insurance is not available.**

Orders should be modified and entered where appropriate to establish cash medical support amounts when no insurance is available through the non-custodial parent's employment. Cash medical support

should be used as a more direct and predictable offset to Medicaid expenditures than third-party recovery efforts.

- B. OAG's CSE and the Texas Department of Health (TDH) should negotiate an incentive structure to bring improvements in medical support enforcement and support order establishment. TDH and OAG should be required to report the results of this effort to the Legislature by October 1, 1996.**
- C. To identify additional revenue opportunities for the state, the Legislature should initiate a study to further address the following issues:**
- establishment of a IV-D health insurance purchasing alliance or the addition of this category to any bulk buying strategy for health insurance for the state; and
 - legislative action needed to conform fully to the provisions of the federal Omnibus Budget Reconciliation Act of 1993.

Implications

Cost avoidance by obtaining medical coverage under private health insurance is a significant benefit to the state. In cases where private insurance is not available, the state should pursue cash medical payments to reduce the cost of AFDC and non-AFDC Medicaid children's state paid health insurance.

Fiscal Impact

Savings cannot be estimated from the information available from OAG. OAG cannot provide the number of paying AFDC or non-AFDC Medicaid cases with cash medical support orders or the potential amount of cash medical support collections. OAG does not have the capability to distribute accurate and timely cash medical support collections due to deficiencies in the current automated system and the complexities of relevant federal rules. After installation of the new automated child support collection system in February 1995, OAG will have the capability to provide more accurate information on this issue.

Provision of an incentive payment system for cash medical child support enforcement will allow recovery by OAG for costs associated with this function. This payment would provide additional incentive to monitor and update medical support enforcement orders.

Endnotes

- ¹ 45 CFR 302.31 (3).
- ² Interview with Michael Generali, Child Support Enforcement Division, Office of the Attorney General, Austin, Texas, October 1994.
- ³ Interview with Charles Childress, special counsel, Child Support Enforcement Division, Office of the Attorney General, Austin, Texas, October 1994; and interview with Terry Cottrell, section manager, Third-Party Resources, Texas Department of Health, October 1994.

Improve the State's Administrative Hearings Process for Child Support Enforcement

The Legislature should improve the administrative hearings process for child support enforcement.

Background

Texas is struggling to keep up with the growing need to enforce child support laws. The total caseload for the Child Support Enforcement (CSE) program of the Office of the Attorney General (OAG) grew by 55 percent, from 427,565 cases in fiscal 1989 to 664,250 cases at the end of fiscal 1994. The total number of cases is projected to exceed one million by the end of fiscal 1997. Child support obligations have been established in less than half of the cases.¹

Texas faces federal requirements to serve CSE clients. In addition, OAG faces many administrative requirements of the federal Office of Child Support Enforcement (OCSE), such as case processing time deadlines and case updating targets.

OAG determined that its CSE division filed 175,893 court actions in fiscal 1993, which is near the capacity limit of the current judicial process. The capacity of the system restricts the number of cases that can be completed.²

The Comptroller's 1993 report *Against the Grain* recommended the establishment of an administrative hearings process for child support enforcement to simplify and speed up the process of establishing child support orders.³ The recommendation suggested an administrative process that was quicker and less costly than the court-based process. Cases with no real factual disputes would be handled more quickly, without sacrificing fairness to the parties involved.

The Legislature enacted House Bill 724 in 1993, partially fulfilling the recommendation. Based upon OAG's pilot projects, some adjustments have been identified to streamline and expedite the administrative process.

Participants in child support review (CSR) are not required to attend the negotiation conference but they may request a court hearing. Participants may walk out of negotiations, but CSR must continue, and then the participant may request a court hearing. Parties may sign an agreement and may request a court hearing at any time before CSR is confirmed by a court.

The statute also requires that a CSR agreement contain notice in boldfaced type or in all capital letters that a hearing can be requested: The final petition for confirmation of orders must contain a form to request a court hearing as an attachment to the petition, even though no other civil suit procedure requires that the respondent be provided with a form for an answer or court hearing along with the petition. Finally, OAG must make available a form to request a court hearing to the clerk of the court and to a party to the CSR proceeding. Since many more opportunities are presented to request hearings than in the OAG court process for working child support cases, it is not surprising that a higher proportion of the cases in the pilots request hearings than in other OAG cases.

The administrative review process statute requires that CSE process officers have "certified family law mediation training." No group certifies mediation training. Dispute Resolution Centers offer training in dispute resolution and allow individuals to mediate with about 40 hours of training. They need to seek

child support, medical support coverage and paternity establishment under the statute's guidelines with or without the parties' agreement.

The statute now indicates that the purpose of the CSR process is to mediate a settlement on child support. The stated statutory purpose of the process is "to attempt to reach an agreement regarding child support payments" when the real purpose should be to resolve the issues of child support and paternity, regardless of whether an agreement can be reached.

Certain procedures should evolve as a matter of course with changes in the statute for the administrative process. CSR determines the amount of child support owed in negotiation procedures. A more efficient way of establishing this amount would be to notify obligors before the beginning of the administrative process. The State of Washington's administrative procedure relies upon defaults: the obligor must serve a written objection and appear for any hearings, or the preliminary notice of child support is adopted as the order.⁴ Washington's Paternity Affidavit Program helps to obtain an administrative order for child support through a Notice and Finding of Parental Responsibility, an Agreed Settlement, a Consent Order or an Administrative Order in 85 percent of the cases. Cases are worked within a median time of 156 days after the birth of a child, primarily through default. Due process constitutional challenges to Washington's statutes have not been upheld in the courts.⁵

Requirements for the negotiation conference in CSR have the effect of encouraging court hearings in which no change in final action results. The State of Washington has about 90 percent of its cases resolved through their informal administrative procedures without a court hearing. At negotiation conferences in Texas, the CSR process officer is required by law to explain the process and the rights of the parties in substantial detail. Negotiations held outside CSR require no notification to the parties and allow a free-form negotiation, sometimes resulting in an order in 30 minutes or less, compared to the CSR sessions that take up to two hours. In many instances, a court hearing is held, although few actions to change support orders result.⁶

Implementation of the existing CSR process statewide by OAG may result in fewer filings and orders than procedures under the current statute. If implemented statewide in this form, these administrative procedures may cost more than before. In some areas of the state where court proceedings are more elaborate, these administrative procedures still could be cost effective under the current statute.

Recommendations

- A. The Legislature should clarify that the purpose for the negotiation conference is to resolve the child support issues in a manner that makes a fair determination of the relevant facts and an appropriate disposition.**

This recommendation would strengthen and speed up the administrative child support process by focusing on a fair determination and timely disposition, instead of the negotiation of a settlement. This more closely follows other states' successful administrative processes.

- B. The Legislature should simplify the child support review (CSR) process to require notice of the right to request a court hearing be offered only at the negotiation conference; to rely more on default and "consent orders and agreed settlements" outside the judicial process; to confer authority for CSR officers to obtain compliance with subpoenas; and effectively order paternity testing.**

The administrative process should be structured to provide a speedy and fair disposition of child support matters, and encourage only necessary court hearings.

- C. The Office of the Attorney General (OAG) should expand as soon as possible the use of a simplified administrative process, where it is determined to be cost effective.
- D. OAG should conduct a study to determine the cost of regular and CSR processes for child support enforcement, to be presented to the Governor and the Legislature by September 1, 1996.

The OAG's report should make findings and recommendations for modifications to laws improving court and CSR processes for child support enforcement.

Implications

Further modifications to the administrative CSR process are necessary to provide more cost effective alternatives to the court system process. These recommendations would further reduce the costs of the administrative CSR process to speed up and streamline the establishment of child support orders for the populations served by OAG.

Fiscal Impact

The fiscal impact of this recommendation cannot be estimated from the data available under OAG's current automation system. It is anticipated that savings would result from a reduced case processing time for the establishment and modification of child support orders. In addition, as more child support orders and collections are made, the state should have increased revenue in OAG's Child Support Retained Collections Account and public assistance programs as child support is applied against those expenditures.

Endnotes

- ¹ Alice Embree, Child Support Enforcement Division, Office of the Attorney General, memorandum to Arlene Pace, September 21, 1994.
- ² Testimony by Charles Childress, special counsel, Child Support Enforcement Division, Office of the Attorney General, at the House Human Services Committee, Interim Study on Welfare Reform, public hearing, June 20, 1994.
- ³ Comptroller of Public Accounts, *Against the Grain, High-Quality Low-Cost Government for Texas*, Austin, Texas, January 1993, p. 509.
- ⁴ Charles Childress, special counsel, Child Support Enforcement Division, Office of the Attorney General, September 22, 1994. (Memorandum.)
- ⁵ Charles Childress, special counsel, Child Support Enforcement Division, Office of the Attorney General, September 22, 1994. (Memorandum.)
- ⁶ Charles Childress, special counsel, Child Support Enforcement Division, Office of the Attorney General, September 16, 1994. (Memorandum.)

Improve Information Collection in the AFDC and Child Support Programs

The Texas Department of Human Services and the Office of the Attorney General should jointly develop a streamlined system for taking immediate action to enforce child support collections when a person applies for public assistance.

Background

In Texas, like the rest of the nation, many children receive Aid to Families with Dependent Children (AFDC) because of the failure of an absent parent to provide child support. Only 9 percent of Texas' AFDC cases received child support in 1994.¹

The Social Security Act requires AFDC clients to assign their rights to child support to the state. AFDC applicants and recipients also are required to cooperate with the state in efforts to enforce the child support obligations of an absent parent unless the state determines that it is not in the best interest of the child to do so. Failure to cooperate without a state-determined "good cause" makes the custodial parent ineligible for AFDC. In such cases, benefits for the children that remain eligible then are made in the form of a protective payment to a person other than the caretaker.

In Texas, the AFDC program is administered by the Department of Human Services (DHS) while the child support enforcement (CSE) program is administered by the Office of the Attorney General (OAG). The cooperation of DHS and OAG is essential in ensuring child support for children on AFDC.

Applicable federal policy provides that DHS must give OAG written notice within two working days that a dependent child has been accepted for AFDC. Despite this federal mandate, cooperation between DHS and OAG in Texas could be improved in several respects. First, OAG reports that the information provided by DHS about the absent parent is often incomplete, inhibiting enforcement activities. Applicants for AFDC in Texas are required to complete a "Parent Profile Questionnaire" about the non-custodial and absent parent. Information requested on the two-page questionnaire includes name, date of birth, current or last known address and telephone number, current and previous employer, collateral contacts who may know the whereabouts of the absent parent, access to medical insurance, and relationship between the mother and father of the child. The more complete and accurate this information is, the easier it is to locate an absent parent and enforce the absent parent's obligation to pay child support.

OAG reports that few referrals are complete, and missing information may relegate a case to a lower enforcement priority. In nearly two-thirds of all cases, the address of the absent parent is not known. Eight percent of all referrals from DHS are not acted upon by OAG because the absent parent is listed as "unknown" or no information is provided about the absent parent.²

A notable exception to this pattern of incomplete referrals is an informal pilot project now underway in Houston, where OAG has stationed CSE staff to work in the local DHS office. The results of the OAG's pilot project are encouraging. The benefits include more complete referrals to the child support staff from DHS, a minimum of redundant data collection on the agencies and the applicants, and the agencies' clearer understanding of their roles in child support enforcement.

This approach was discussed by OAG in its response to TPR's 1993 *Against the Grain* recommendations. OAG stated that "DHS and the Office of the Attorney General are discussing co-location, locating DHS and OAG field staff in the same place to facilitate accessibility to both programs. This is an initiative in progress and is being pursued in several areas where the change would be feasible."³ With only one pilot area currently in operation and apparently successful, OAG and DHS could pursue expansion more intensively. Currently, OAG reports that it is considering expanding its Houston effort and co-locating child support staff with DHS staff as leases expire and staffing permits.

Second, the referrals from DHS to OAG are only made after eligibility has been determined, delaying enforcement activity for at least 30 days. Research shows that the earlier CSE activities begin, the more effective they are. As noted previously, federal rules permit DHS to make referrals to OAG at the time an application for AFDC is made and before eligibility is determined. If DHS were to make its referrals to OAG at the point of application, instead of after eligibility determination, it would be possible for OAG to ensure that the information it received from the custodial parent applying for AFDC is complete. Custodial parents failing to cooperate with OAG within the 30-day window could be reported to DHS, and their benefits could be denied.

Third, the referral process from DHS to OAG is largely automated. Each day, system information from the Parent Profile Questionnaire is automatically transmitted from DHS to OAG. Approximately 16,000 referrals are made each month. Currently, OAG receives AFDC case information too late to inform DHS of non-cooperation before eligibility is determined. Thus, non-cooperation notices must be enforced through sanctions to those already receiving benefits.

DHS has begun to take action on OAG notices. Before January 1994, only 400 cases per month were sanctioned after notice from OAG. Since January 1994, when DHS established a manual system of tracking cases that OAG reported as non-cooperative, DHS has penalized an average of 1,500 cases per month out of an average of 4,000 cases referred by OAG. Less than 1 percent of these incomplete cases are able to establish good reason for the case to be exempted from the non-cooperation requirement.⁴

Generally, the federal rules denying eligibility make it much easier and more effective to deny assistance. Reducing aid to persons who have already been found eligible for AFDC is time-consuming and cumbersome.⁵ In addition, the requirement of cooperation reinforces the message that custodial parents have an important role to play in securing self-sufficiency for themselves and their children. In some cases, vigorous child support enforcement may obviate the need for AFDC entirely, since child support payments would make most cases ineligible for public assistance.

The federal government has been increasingly supportive of state initiatives to improve the connection of child support information in AFDC and CSE programs. It has sponsored several demonstration grants to improve the connection between child support and AFDC programs and to promote co-location and other one-stop-shopping initiatives. Key findings from these demonstration projects that have been included in the Clinton Administration's welfare reform initiative show that the custodial parent's role in CSE should be discussed at the time of application in a meaningful way; the child support agency should be required to certify that an applicant cooperated fully before eligibility is determined.

Recommendations

- A. The Texas Department of Human Services (DHS) and the Office of the Attorney General (OAG) should develop a streamlined procedure for ensuring that all information required to establish and enforce child support obligations is provided by the custodial parent at the time of application for Aid to Families with Dependent Children (AFDC), before eligibility is determined.**

Information necessary to collect child support is an important part of the public assistance process.

- B. OAG should submit to the Legislature by September 1, 1995, a specific plan and timetable to ensure the stationing of child support staff at appropriate DHS locations when it is cost effective to do so.**

OAG and DHS have initiated a successful pilot program in Houston using co-located staff. Currently, no formal plans exist to provide this in additional locations statewide.

- C. Until a linkage between AFDC and child support is developed, OAG should return all incomplete referrals for child support enforcement to DHS.**

Federal regulations require DHS to provide OAG with the information necessary to establish and enforce child support. DHS staff would be more likely to secure complete questionnaires on the absent parent if they knew that incomplete forms would be returned to them with no action taken.

Implications

If these recommendations are implemented, child support enforcement staff would be required to certify the cooperation of applicants as a condition of AFDC eligibility, placing responsibility for the financial support of the child first on the parents. The primary advantage of placing the child support enforcement process squarely in the AFDC eligibility determination process is that it can ensure that the information needed to establish and enforce child support can be secured in a timely fashion. Further, the interaction between child support staff and applicants for AFDC would reinforce the message that the purpose of public assistance is to provide temporary support to custodial parents until self-sufficiency can be achieved through employment and child support enforcement. Finally, these recommendations would require two agencies to work together to improve customer service, reduce duplicate data collection and clarify each agency's role in promoting welfare recipients' self-sufficiency.

As a result of implementing these recommendations, the AFDC caseload could fall by as much as 5,700 cases. In some of those cases, children would be able to apply separately from the parent and, if qualified, receive children-only AFDC benefits.

More importantly, the income that AFDC families receive should be increased as a result of more effective child support enforcement. Federal policy requires that the first \$50 of AFDC child support collections each month be paid to the custodial parent as an incentive for their cooperation. For a family dependent on AFDC in Texas, this amount is significant, although the amount is not proportional to the child support paid, since benefit levels would be partially reduced by this additional income.

Finally, OAG's AFDC child support collections should increase. Beyond the \$50 level, federal policy provides that all AFDC-related child support payments are returned to the state and federal government to offset the current and all prior AFDC payments. Since Texas will pay approximately 38 percent of the AFDC grant in fiscal 1996-97, the state is entitled to 38 percent of these collections. Further, unlike non-AFDC child support collections, increases in AFDC-related child support collections also may increase the federal government's incentive payments to the state.

Fiscal Impact

The federal government reimburses all states 50 percent of AFDC administrative costs and 66 percent of the costs related to child support enforcement, and makes additional federal incentive payments based upon performance criteria. The state pays approximately 38 percent of the cost of AFDC and is entitled to the same proportion of the additional AFDC-related child support collections.

General Government

Assuming a six-month phase-in period, this recommendation would save \$4.1 million in fiscal 1996 and \$4.6 million in fiscal 1997. These savings would be achieved by reducing the appropriation to DHS.

A gain of \$1.3 million in fiscal 1997 would result in the OAG's Child Support Retained Collections Account. These savings would allow OAG to perform more CSE functions.

Fiscal Year	Gain/(Loss) to the General Revenue Fund	Gain/(Loss) to the Child Support Retained Collections Account
1996	\$4,100,000	\$ 0
1997	4,600,000	1,300,000
1998	5,000,000	1,400,000
1999	5,500,000	1,600,000
2000	6,100,000	1,800,000

Endnotes

- ¹ Memorandum by Alice Embree, Office of the Attorney General, Austin, Texas (September 21, 1994), p. 1.
- ² Interview with Cecelia Burke, Charles Childress, Alice Embree and Arlene Pace, Office of the Attorney General, Austin, Texas, September 8, 1994.
- ³ Letter from Cecelia Burke, director, Child Support Enforcement Division, Office of the Attorney General, February 17, 1993, pp. 9-10.
- ⁴ Department of Human Services, "Cooperation with Child Support Program," (September 22, 1994), p. 1. (Information handout.)
- ⁵ Interviews with Bill Benton, consultant, Benton & Associates, Inc., September and October 1994.

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Establish an Education and Job Training Program for Absent Parents

Texas should provide employment services, adult basic education and job training for AFDC children's parents who owe child support.

Background

In Texas, only about 1 percent of new AFDC cases referred to the Office of the Attorney General (OAG) for collection of child support have court orders. About two-thirds of new cases do not have established paternity.¹ For these reasons, only a small percentage of AFDC clients receive child support payments.

Once paternity has been established and a court has ordered child support, many absent parents cannot pay because they are unemployed. Even if employed, they may not earn sufficient wages to provide meaningful child support. This is especially likely when the parent is young and undereducated. Such cases can end up in court for non-payment of child support and can carry a jail sentence. In fiscal 1994, the OAG prosecuted 4,524 cases for "motions to enforce child support orders."²

If a jail sentence is handed down, taxpayers must pay the cost of incarcerating the absent parent in addition to the continued support of his family. Furthermore, while the absent parent is in jail, he continues to accrue a past-due child support balance with no ability to pay.

Some states have addressed this problem by requiring non-paying parents to participate in job training programs. California, Florida, Kansas, Illinois and other states are participating in a federal demonstration project, "Parents Fair Share," that gives the states federal funds to provide job training and placement services to unemployed absent parents. Instead of locking up the non-custodial parent, these states offer basic education and job training programs to give the non-paying parent the skills necessary to obtain a steady job.

As an unexpected benefit of this program, some noncustodial parents that were required to attend job training classes have admitted to having a job and voluntarily begun paying child support. In Grand Rapids, Michigan, 14 percent of all cases fell into this category.

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Recommendation

Texas should appropriate \$1 million to the new Texas Department of Work Force and Economic Development (proposed by the Comptroller's Texas Performance Review) for adult basic education and \$2 million for job training for absent parents who owe child support to AFDC families. In addition, the Legislature should appropriate \$200,000 to the department for administrative costs and \$50,000 to the Office of the Attorney General for administrative costs to fund the initiative for each year of the 1996-97 biennium.

These funds should be appropriated from the Child Support Retained Collections Account. The program should make maximum use of any federal funds, including grants, that may be available for adult education and job training programs.

The new work force development agency should refer these noncustodial parents directly to the Job Training Partnership Act (JTPA) and pay for one-half of training costs from the proposed fund. Most of these clients, being unemployed and underskilled, would be eligible for JTPA services because of their economic situation. JTPA funds and services are distributed by Texas' local Service Delivery Areas (SDAs) and local courts. The SDAs would need to coordinate court-ordered referrals.

In the 1993 program year, JTPA served 119,656 clients in Texas. In the same year, if all 4,524 cases of motions to enforce child support orders had been referred to JTPA for job training, this would represent only a 3.6 percent increase in caseload.

Implications

Education, job training and employment services, enabling the non-paying parent to gain the skills needed for employment, would allow the state to collect child support in more cases, reduce the number of families relying on AFDC and increase the recovery of AFDC costs. By providing job training as an alternative to jail, the state would also save the additional costs of

DRAFT

incarceration. Considering the low annual number of prosecutions (4,524) and the fact that these noncustodial parents are probably eligible for JTPA services, this program would not cause a large increase in new cases for the JTPA program.

Fiscal Impact

The program costs cover two new full-time equivalent employees (FTEs) to administer the funds and one FTE in the child support enforcement (CSE) program to monitor the effect of the program on child support collections and to act as a liaison between the CSE program and the new state work force development agency.

The total number of participants in the program would depend on the federal funds the state could draw to the program.

Although the savings from an education and job training program cannot be estimated at this time, providing employment to absent parents would result in additional child support collections, which would offset AFDC payments.

Fiscal Year	Cost to Child		Total Child Support	
	Support Retained Collections Account	Administrative Costs	Retained Collections Account Costs	Change in FTEs
1996	\$3,000,000	\$250,000	\$3,250,000	+3
1997	\$3,000,000	\$250,000	\$3,250,000	+3
1998	\$3,000,000	\$250,000	\$3,250,000	+3
1999	\$3,000,000	\$250,000	\$3,250,000	+3
2000	\$3,000,000	\$250,000	\$3,250,000	+3

Endnotes

¹ Interview with Alice Embree, deputy director of strategic planning, Child Support Enforcement Program, Office of the Attorney General, Austin, Texas, September 27, 1994.

² Interview with Jennifer Jeans, administrative assistant, Child Support Enforcement Program, Office of the Attorney General, Austin, Texas, September 26, 1994.

DRAFT

Implement New Measures to Enforce Child Support Orders

The Legislature should mandate revocation of state licenses for persons who are delinquent in child support payments.

Background

Requiring child support obligors to comply with court orders ensures that children will receive the financial support to which they are entitled. In 1993, the Comptroller's Texas Performance Review recommended several measures to increase the enforcement of child support orders. One recommendation not adopted by the Legislature was to revoke or deny renewal of state licenses—including driver's, professional and occupational licenses—for delinquent obligors.

The Office of the Attorney General (OAG) is responsible for child support enforcement (CSE) programs in Texas. OAG has established court orders for child support in about 99,000 Aid to Families with Dependent Children (AFDC) cases. Only 24,000 of these cases are classified as paying cases, leaving almost 75,000 cases with obligors that are not paying. Statistics for non-AFDC are somewhat better, with about 51 percent of obligated cases paying. Remedies available to OAG for enforcement in cases of persistent delinquency include wage withholding, liens and interception of lottery winnings and federal tax refunds. These remedies are not sufficient and additional child support enforcement tools are needed.

The U.S. Commission on Interstate Child Support recommended the revocation of licenses to enforce support in cases of ongoing delinquency.¹ The Clinton administration's welfare reform plan and other public assistance reform proposals also recommend the revocation of driver's licenses.

Maine's legislature passed the Family Financial Responsibility Act in September 1993, denying driver's licenses for delinquent child support obligors. Since then, the state human services department has sent notices to 20,000 delinquent parents. Of these, about 56 percent have responded with payments totaling nearly \$16.3 million for back child support.²

DRAFT

Implementing the program cost \$76,000 for programming, letter development and postage. To date, however, only 32 licenses have been revoked, with nine reinstated after the obligor paid child support.

Texas' new automated child support enforcement system, TXCSES, will maintain an automated link with the Texas Department of Public Safety (DPS) to locate obligors. In order to implement the driver's license revocation proposal, OAG would notify DPS of the non-payment of child support for a particular driver and generate letters to be sent to the obligors. DPS, which maintains centralized records and a database of driver's licenses, would take action to revoke licenses. The OAG would be responsible for the bulk of fact-finding and payment negotiation to dispose of licensing proceedings and for maintaining the database necessary to identify those not up-to-date on child support payments. TXCSES could be expanded to match delinquent obligors with their driver's license information. Then, DPS could deny license renewal and revoke existing driver's licenses as warranted.

The State Office of Hearings Examiners would be involved in any cases that go to hearings. Similar interfaces could be established with other state agencies for professional and occupational licenses.

Recommendation

The Legislature should mandate revocation of state licenses for delinquent child support obligors.

Not only would past-due obligors be unable to renew their driver's licenses and state professional and occupational licenses, but they could have their licenses revoked after a successful match between the state records. To ensure fairness, this procedure would require a due process notice to certain license holders before revocation.

Implications

This initiative would provide a powerful mechanism for collecting child support arrears. It relies on an existing administrative process and would apply a different sanction from that now available through other child support collection techniques.

Being caught driving without a valid driver's license normally results in consequences that most obligors would find more onerous than routine child support enforcement processes. The state could collect payments in arrears from current or former AFDC recipients, which, when spent by the child support enforcement program, would increase federal child support incentive payments to the state.

Fiscal Impact

A significant increase in collections for AFDC cases should occur due to the payment of obligations in arrears in the first three years of operation. Ongoing savings would accrue from the collection of current child support starting in the third year.

The estimate of fiscal impact assumes that Texas' experience will be slightly less successful than Maine's. The estimate includes only costs and savings from revoking or denying renewal of driver's licenses. OAG would need to negotiate payment of the costs of system changes needed by DPS and ongoing costs of DPS operations to support this effort. Savings and costs of hearings and the revocation and non-renewal of professional and occupational licenses cannot be estimated.

This proposal should produce a gain to the Child Support Retained Collections account of \$18.9 million for the 1996-97 biennium and \$60.2 million over five years.

Fiscal Year	Gain to Child Support Retained Collections Account	Costs to Child Support Retained Collections Account	Net Gain to Child Support Retained Collections Account
1996	\$10,000,000	\$1,100,000	\$9,100,000
1997	10,000,000	200,000	9,800,000
1998	20,700,000	200,000	20,500,000
1999	10,600,000	200,000	10,400,000
2000	10,600,000	200,000	10,400,000

DRAFT

Endnotes

- ¹U.S. Commission on Interstate Child Support, *Supporting Our Children: Blueprint for Reform* (Washington, D.C., 1992), p. _____
- ²"Maine Takes Deadbeat Dads Off the Street," *State Legislatures* (September 1994), p. 13, and interview with Gerald Lindsey, assistant director, Child Support Division, Maine Department of Human Services, Austin, Texas, October 26, 1994.

Increase Cost Recovery and Fees for Child Support Enforcement

Texas should develop a schedule of fees for services and include a late payment penalty in child support orders to offset some of the administrative costs of serving the growing number of non-welfare clients.

Background

Some states offset costs of child support enforcement programs operated under Title IV-D of the Social Security Act by collecting various fees, penalties and so-called "cost recovery." As of 1990, however, at least one study has concluded that states have achieved only limited success in defraying program costs through such measures.¹ There are a number of possible explanations for states' reluctance to impose these fees.

Under federal regulations, all such amounts collected would be counted as "program income," meaning that the federal share—at present, ordinarily 66 percent of such amounts—is returned to the federal government. In a state whose share is not appropriated to the child support enforcement or IV-D agency, the child support program may receive no benefit from even the state's share. Also, federal distribution regulations give priority to amounts of support owed before the costs of services or penalties may be recovered. The effect of this action can delay or prevent the ultimate recovery of costs in marginally paying cases. States may experience significant additional costs in administering and attempting collection of such costs.

Fees or cost recovery may be imposed on either the custodial or non-custodial, non-Aid to Families with Dependent Children (AFDC) parent. Thus, these charges may deter the non-AFDC custodial parent's application for IV-D services. This is a desirable result in a state seeking to minimize the net financial drain on state resources attributable to non-AFDC work.

Most states, including Texas, collect almost no fees or late payment penalties. In Texas, the Office of the Attorney General (OAG) does collect attorneys' fees and court costs when awarded by the court and when collection amounts permit.

Although federal regulations require some application fee, Texas charges a nominal fee of one dollar and pays it for the applicant as permitted under the regulations.² In addition, Texas

DRAFT

has no late payment penalty and has not elected to recover costs from either parent in its state plan. A late payment penalty and the recovery of costs from obligors for the expense of enforcing a delinquent obligation, however, can encourage payment of child support. These charges also could encourage private sector collections outside the IV-D program and alleviate the inequity to children and custodial parents caused by loss of child support for enforcement expenses.

Federal regulations permit cost recovery on non-AFDC cases only.³ The penalty would help defray the expense of collection or other enforcement to the custodial parent in private cases, and defray the expense to the state in IV-D cases. In addition, a delinquent obligor should be liable for both attorneys' fees and charges for other collection efforts undertaken on behalf of an obligee that are reasonably necessary to obtain payment of overdue support. In an IV-D case, the amount of an obligor's liability would be the amount calculated from its federally approved schedule of costs for the specific case actions taken. As in the case of a late payment penalty, this imposition of liability would place the costs of enforcement with the person who necessitated it, would further induce private sector participation in collecting child support other than at public expense through the IV-D program and would result in a greater availability of the ordered support for its intended purpose.

Colorado, Florida, Oregon, Utah, Virginia and Washington, D.C., recover costs from obligors only.⁴ Florida, similar to Texas in IV-D characteristics, recovered about \$733,000 in costs in fiscal 1992. Virginia recovers about \$120,000 with non-AFDC collections less than half of Texas'.⁵ These two states together recover about 2.5 percent of non-AFDC collections from the obligor.

Recommendations

- A. The Legislature should enact a late payment penalty and statutory establishment of obligors' liability for the costs of collecting delinquent child support payments.**

The Legislature should establish a late payment penalty (30 days delinquent) and modify the State Plan election so as to recover the IV-D costs of enforcement from the non-custodial

parent. The late payment penalty should be 10 percent of the total amount of the delinquent support payment (both current and toward any arrearage), in whole or in part, but limited to 6 percent of overdue support in IV-D cases. A substantial penalty for less than prompt and full payment of support would encourage regular and timely fulfillment of child support obligations.

The Legislature should provide for notice of late penalty within new or modified child support orders. For existing orders, notice should be mailed directly to the non-custodial parent. The IV-D agency would have to pursue cost recovery in non-AFDC cases against obligors.

- B. The Office of the Attorney General (OAG) should revise the State Plan election to recover the IV-D costs of enforcement from the non-custodial parent on non-AFDC cases.**
- C. The OAG's Child Support Enforcement Division should develop a cost recovery plan to recover fees from the non-custodial parent as permitted by federal law.**

Implications

To develop a cost recovery plan, the OAG must augment its current cost accounting measures. All OAG costs must be allocated to a specific case processing activity as necessary to facilitate federal approval of the cost recovery plan presented in the State Plan. Automation could help compute and record late payment penalties and cost recovery charges.

Fiscal Impact

The 10 percent penalty for non-IV-D cases and 6 percent penalty for IV-D cases and cost recovery are estimated to cost a net \$200,000 in the 1996-97 biennium and gain \$3.9 million over the five-year period. Costs for developing the cost recovery plan and for automation support are included in the first year. Initial cost of implementation in the biennium will allow an ongoing system for penalties and costs to be recovered.

DRAFT

Fiscal Year	Gain to the Child Support Retained Collections Account From Late Payment Penalties	Gain to the Child Support Retained Collections From Cost Recovery	Costs to the Child Support Retained Collections for Implementation	Net Gain to Child Support Retained Collections Account
1996	\$164,000	\$513,000	\$2,000,000	(\$1,323,000)
1997	270,600	847,000	0	1,117,600
1998	298,000	932,000	0	1,230,000
1999	327,000	1,025,000	0	1,352,000
2000	360,000	1,127,000	0	1,487,000

Endnotes

¹U.S. General Accounting Office, *Child Support Enforcement: Opportunity to Defray Federal and State Non-AFDC Costs*, GAO/HRD-92-91 (Washington, D.C., June 1992), p. ____

²45 C.F.R. §302.33 (a) (2).

³45 C.F.R. §302.75 (b).

⁴National Child Support Enforcement Association, *Interstate Roster and Referral Guide* (city, state?, December 1992), p. ____.

⁵U.S. Department of Health and Human Services, *Seventeenth Annual Report to Congress*, (Washington, D.C., 1994), p. ____.

DRAFT

Expand the Voluntary Paternity Acknowledgment Program

The Legislature should facilitate full implementation of the federally mandated Voluntary Paternity Acknowledgment Program.

Background

Many states have pursued innovative, yet simple approaches to maximize data that can be captured on the fathers of children born out of wedlock. Small monetary investments in paternity establishment have yielded high dividends. These programs are designed to encourage unwed fathers to sign affidavits called voluntary paternity acknowledgments (VPAs). Many fathers visit their newborns in the hospital and are more likely to claim paternity at that time rather than months or years later when child support claims are filed with the state. In 1993, the Comptroller's Texas Performance Review recommended that Texas implement a voluntary paternity establishment program, and the Legislature did so.

Federal law requires that a VPA program be mandatory in all birthing institutions. Although the Texas Legislature authorized such a program, the law does not mandate participation by birthing institutions, most of which are hospitals. For the Texas child support enforcement program to continue its eligibility for federal IV-D funding, it will be necessary to make birthing institution participation mandatory by law.

Since 1993, the Office of the Attorney General (OAG) and many Texas hospitals have cooperated to implement voluntary paternity establishment processes in a majority of birthing hospitals. By the end of fiscal 1994, OAG had 255 hospitals in its voluntary paternity program.¹ The number of paternity establishments directly related to this program is not available because birth certificates only are not counted. Nonetheless, the "Volunteers in Paternity" program has been successful; OAG receives many voluntary paternity acknowledgments from unmarried Texas fathers. Under voluntary agreements with hospitals, OAG received about 10,000 VPAs in fiscal 1994, representing about 18 percent of all out-of-wedlock births.

DRAFT

Still, there is room for improvement in Texas' VPA program. The State of Washington's program is considered a model for other states. Washington obtains VPAs in almost 40 percent of all births to unwed mothers by paying birth attendants \$20 for each signed affidavit to increase participation by hospital workers.

As a direct benefit to current child support cases, Washington found a match rate of VPAs to existing child support enforcement cases of about 25 percent. In Texas, OAG data on VPAs from fiscal 1994 indicates a similar experience: about 25 percent of the VPAs are matched to existing child support enforcement cases.² Despite this progress, legal impediments still exist to maximizing the number of VPAs.

Texas statutes and court procedures fail to maximize the advantages of VPAs by not relying more on default court procedures. Texas law governs actions to establish the parent-child relationship; support obligations are based on the putative father's written consent to be named as the father on the birth certificate or on affidavits voluntarily acknowledging paternity. Washington allows a default judgment based on a petition filed naming the child and all the parties entitled to notice. Attached to the petition are a certified copy of the birth certificate, an affidavit concerning the father's consent to be named as father or an original affidavit of paternity. This creates a presumption of paternity and is in itself enough to support what courts require to enter a default judgment establishing the parent-child relationship. The court may order current and retroactive support if the putative father does not file a verified answer denying paternity in a timely fashion.

In Washington, the court must order paternity testing if the putative father files a verified denial in a timely manner. In Texas, a paternity test is required in most cases, paid by OAG.

Another approach would be to allow the court to order the putative father to make testing arrangements that satisfy the court and to pay the costs of testing as may be required by the court-appointed expert. In cases where paternity testing does not establish the parent-child relationship, OAG would be required to pay the putative father for testing expenses.

The Texas Family Code could require the court to enter a default judgment establishing the parent-child relationship if the putative father fails to comply with court-ordered arrangements and

DRAFT

payments for paternity testing. The process could also ensure fairness to all parties by requiring the court to give the putative father adequate notice and opportunity to be heard on the issues of paternity establishment and child support.

The Legislature could revise the statutes to give voluntary acknowledgment the effect of preventing costlier and repetitive establishment of paternity in the formal court setting, except where serious denials of paternity are asserted.

Recommendations

- A. The Legislature should enact legislation to facilitate full implementation of the federally mandated Voluntary Paternity Acknowledgment Program and include an incentive fee up to \$20 for each signed affidavit submitted by birthing institutions.**

The change in Texas law would allow the state to continue to receive federal funds for child support enforcement. The fee for signed paternity acknowledgments would create an incentive for hospital workers to emphasize the voluntary paternity process.

- B. The Legislature should give the courts and the Office of the Attorney General (OAG) authority, using a simplified "default" judgment system, to establish a support order in cases in which the father has signed the Voluntary Paternity Acknowledgment affidavit.**

The simplified "default" judgment approach would allow cases to be worked more quickly, with the putative father responsible for complying with court orders. Fairness to all parties would be maintained by giving the putative father adequate notice and opportunity to be heard on the issues of child support and paternity establishment.

To monitor the program's success, the OAG should maintain automated data to identify cases filed based on birth certificate or paternity affidavits separately from other types of actions to establish paternity.

DRAFT

Implications

Establishing paternity at the time of birth would simplify and speed up later actions regarding child support enforcement. An incentive fee for hospitals represents only one-fifth or less of the average cost of establishing paternity in cases where OAG must use the current court and paternity testing process.³

The simplified court procedures for using VPAs would accelerate later actions and reduce the complexity of determining child support and paternity.

Fiscal Impact

These recommendations would result in a gain to the Child Support Collection Account of \$7.3 million for the 1996-97 biennium and \$30.7 million over five years from increased collection of child support in Aid to Families with Dependent Children (AFDC) cases and reduced costs for the increased paternity established by the VPA. These estimates include the costs of the existing level of paternity acknowledgments as well as expected new acknowledgments above this level.

Fiscal Year	Gain to the Child Support Retained Collections Account	Cost to the Child Support Retained Collections Account	Net Gain to the Child Support Retained Collections Account
1996	0	(\$500,000)	(\$500,000)
1997	\$8,300,000	(500,000)	7,800,000
1998	\$8,300,000	(500,000)	7,800,000
1999	\$8,300,000	(500,000)	7,800,000
2000	\$8,300,000	(500,000)	7,800,000

Endnotes

¹"State Child Support Office Under Fire," *Austin American-Statesman* (August 30, 1994), p. ____.

²Office of the Attorney General, "Volunteers in Paternity Project—Submittals and Matches," computer report (fax transmission), Austin, Texas, October 14, 1994.

³Office of Child Support Enforcement, 1993 Annual Report (Austin, Texas), Table 31.

DRAFT

Increase Use of Private Firms to Assist in Child Support Enforcement

The Office of the Attorney General should be strongly encouraged to increase the use of private firms to increase paying child support enforcement cases.

Background

The Office of the Attorney General (OAG) is responsible for child support enforcement in Texas. Caseloads in fiscal 1994 indicate that OAG meets only a small percentage of children's needs for financial support from their parents. Of about 664,000 cases, only 21 percent in fiscal 1994 received support payments as a result of actions by OAG.¹

These cases are not easy to work because so many are public assistance cases. Also, the caseload is growing rapidly and is expected to reach 1 million by fiscal 1997.² Texas and other states have addressed growing caseloads by exploring alternatives using private firms.

A recent survey indicates that 44 percent of all the states' child support enforcement agencies operating under Title IV-D of the federal Social Security Act use the private sector in their collection efforts. Further, these states do not limit the amount of collections a contractor may realize. Two-thirds of the states report that total contracts with outside vendors exceed \$100,000 in state expenditures; 13 percent of the states spend more than \$1 million. Collection of child support is the service most often contracted out.³

Georgia and Tennessee have used private collection companies for the past four years. Mississippi has entered a statewide contract for operation of its child support enforcement program, including all paternity establishment and enforcement responsibilities. Arizona, Massachusetts, Nebraska and Virginia have had success with private-sector contracts of this type. Also, the Canadian province of British Columbia contracts with a private collection firm to operate its entire child support enforcement collection and payment processing services. The results in other states suggest that similar results could be achieved in Texas.

Some states whose Aid to Families with Dependent Children (AFDC) grant levels are similar to those in Texas have used private contractors for collections to achieve a higher rate of

DRAFT

collections on their obligated AFDC cases. Compared with other southern states like Alabama, Georgia, Florida, Arkansas and Tennessee, Texas collects on far fewer of its AFDC court-ordered cases—only about 36 percent, compared to the national average of 53 percent. The southern states listed above collect on 51 percent to 68 percent.⁴

In the past year, Texas has used private firms for some collection components. The results of this initial privatization effort have been positive. OAG's private contractor collected more than \$10 million in child support payments; of these payments, about \$8 million was in AFDC recovery, of which the state's share is estimated at \$2.9 million.⁵

OAG will need to review its use of child support enforcement contractors when its new computer system is installed in early 1995, allowing cases in the system to be handled more automatically. As part of that analysis, OAG should perform cost analysis using the Council on Competitive Government's format, allowing a standardized comparison of similar activities performed by private firms to OAG operations. Several factors, such as case types, age of past-due payments, case paying status and obligor locate status, can affect the expense-to-collection rate and should be considered in the analysis. If OAG costs are higher than the private contractors' and the contractor could collect as much as or more than the OAG, the agency should consider a contractor to perform the activities. Also, OAG should evaluate restrictions on staffing and resources to determine areas where caseload can be met by leveraging outside resources.

Private contractors could handle the portion of OAG's caseload that would be most cost-effective. Cost controls for handling cases, like non-AFDC cases, could be used by setting specific case criteria for referral and adjusting compensation to reflect the level of effort required for that type of case. This could allow compensation to be tied to effort required for the collection, better reflecting services provided by the contractor and providing an incentive to the vendor to work more difficult cases. Current payments of contractors are viewed as reducing resources available to fund existing OAG child support enforcement activities, since expenditures are counted as part of the appropriated expenditure level for this agency.

DRAFT

Recommendation

The Office of the Attorney General (OAG) should be strongly encouraged to expand its use of private contractors for child support enforcement through competitive bid contingency fee contracts.

Implications

This recommendation would allow OAG to expand its child support operations with no additional staffing and increase the percentage of paying cases above current levels. Under the contingency fee contract, a flat percentage of collections is made by the contractor. To the extent the contractor makes recoveries of AFDC and with a like percentage to that paid by other states and under the current contract, the state would realize a net gain to the Child Support Retained Collections Account. Appropriations to OAG should be estimated for the payments of contingency fee contracts for child support enforcement activities. This would allow OAG resources to continue ongoing child support operations and expand private contractor arrangements to maximize the collection of child support.

Fiscal Impact

Expanded use of private contractors would produce an estimated \$3.8 million gain for the Child Support Retained Collections Account during the 1996-97 biennium. Over five years, this proposal is estimated to result in a gain of \$9.5 million to that account. The need for additional OAG staffing is not anticipated.

Fiscal Year	Gain to the Child Support Retained Collections Account	Cost to the Child Support Retained Collections Account	Net Gain to the Child Support Retained Collections Account
1996	\$2,000,000	(\$100,000)	\$1,900,000
1997	2,000,000	(100,000)	1,900,000
1998	2,000,000	(100,000)	1,900,000
1999	2,000,000	(100,000)	1,900,000
2000	2,000,000	(100,000)	1,900,000

DRAFT

Endnotes

- ¹Office of the Attorney General, memorandum from Alice Embree to Arlene Pace, Austin, Texas, September 21, 1994.
- ²Memorandum from Alice Embree to Arlene Pace.
- ³Tom Laramey, *Privatization in the IV-D Program: A National Overview* (Austin, Texas: The Child Support Council, August, 1994), p. ____.
- ⁴Office of Child Support Enforcement, Seventeenth Annual Report to Congress (Washington, D.C.: U.S. Government Printing Office, 1994), pp. 73, 99, 141 and 142.
- ⁵Office of the Attorney General, Child Support Enforcement Division, "Collections/Distributions for PCC Cases for the Month of September 1994" (Austin, Texas, October 2, 1994). (Computer printout.)

DRAFT

Expand Voluntary Employer New Hire Reporting for Child Support Enforcement

To maintain the information needed to withhold wages from absent parents, Texas should expand its voluntary program for employers to report new hires.

Background

In enforcing child support in Texas, automatic wage withholding from a non-custodial parent's employer is one of the most effective tools the Office of the Attorney General (OAG) has to ensure timely and consistent payment of child support obligations.

A major impediment to greater success in collecting child support payments is OAG's inability to maintain accurate, up-to-date information regarding the non-custodial parent's location or employment. Maintaining this information is essential to an effective wage withholding system. Unfortunately, many non-custodial parents routinely relocate or change jobs without notifying the child support office. Once a non-custodial parent terminates employment and takes another job with a new employer, OAG loses automatic wage withholding unless the agency can obtain information about the new employer.

In 1993, the Legislature enacted Senate Bill 291, creating a voluntary, statewide Employer New-Hire Reporting (ENHR) program administered by OAG.¹ The statute requires every participating employer to report new hires and rehires to OAG within 10 work days of the date of hire. It requires each participating employer to report any employee who will (1) be employed for more than one month, (2) be paid for more than 350 hours during a continuous six-month period or (3) have gross earnings of more than \$300 per month. It also sets reporting requirements by suggesting disclosure of the employee's name, address, social security number, date of birth and salary information, as well as the employer's name, address and employer identification number.

To encourage employer participation—and more importantly, to reduce the cost burden on employers—the law establishes a flexible means to transmit the employment information and grants discretion to OAG to promulgate procedures to facilitate reporting.²

DRAFT

According to the OAG, 278 Texas employers have participated in the voluntary ENHR program. Since September 1, 1993, the effective date of the legislation, these employers have reported 45,782 individuals as new hires or rehires. Of this number, 1,895 or 4.5 percent, resulted in a match with a non-custodial parent on OAG's child support caseload.³

Insufficient data is available to conduct a thorough analysis of the success of the ENHR program with respect to meeting the objectives set forth in *Against the Grain*, the 1993 report of the Comptroller's Texas Performance Review. Nor is data readily available on the number of non-paying cases that were converted to paying cases as a result of ENHR, the number of families who have left AFDC or non-AFDC Medicaid due to ENHR or the AFDC monies recouped as a result of child support collections generated from the identified non-custodial parents. From other states' experience with ENHR, Texas could receive additional child support enforcement benefits by expanding efforts on its voluntary ENHR.

Twenty-six states have implemented some version of an ENHR system. For the most part, these programs are mandatory in some aspects. Among states that have evaluated results, all claim significant increases in child support collections for both AFDC and non-AFDC cases.⁴

For example, Massachusetts implemented a mandatory new hire system for all employers in March 1993. State child support officials report an additional 5,500 paying wage assignment cases, 30 percent more paying cases and 31 percent more in collections through wage withholding, totaling \$14.5 million dollars in increased child support collections annually.⁵

Washington, the first state to institute a mandatory ENHR program, reported an 8 percent match rate with identified new employees. Of the matched cases, 87 percent of the obligors had made no support payments during the preceding year. Of the total collected, half was for non-AFDC custodial parents and half went to reimburse AFDC expenditures.⁶

The Clinton administration's welfare reform plan proposes a national new-hire reporting system.⁷ Should Congress enact this provision, there would be little reason to duplicate this operation at the state level. If Congress fails to pass the new-hire reporting program, however, Texas should be positioned to strengthen its ENHR system by developing a cost-effective,

DRAFT

expanded voluntary reporting program that maximizes child support collections—particularly in AFDC and non-AFDC Medicaid cases—while minimizing the burden on employers.

The experience of other states has been that some type of mandatory ENHR program can significantly increase child support collections and indirectly reduce state AFDC and Medicaid expenditures. With the installation of OAG's new automated child support computer system in early 1995, the agency should be capable of designing a new hire reporting system that will maximize the benefits of voluntary reporting.

Recommendations

A. Texas should expand its voluntary employer new hire reporting (ENHR) program.

OAG should be encouraged to work closely with the Texas Employment Commission, the Comptroller of Public Accounts, the Texas Department of Commerce, the Secretary of State and employer groups to expand the voluntary ENHR program. These enhancements should include sending promotional information on the program to all employers on a regular basis to solicit their assistance. The information should report on the program's impact on child support and medical child support enforcement in Texas, outlining how many families in Texas received additional support. It should also include information on how much employers saved taxpayers in public assistance payments. Information should include how employers can join the program and awards for business participation.

OAG should develop a media campaign to inform the general public of this issue and inform businesses how they can help. The media campaign should stress the importance of securing financial support for all children.

B. Reporting requirements should be kept to a minimum and simplified so that all employers find the program easy to use.⁸

D. Employers should be strongly encouraged to report information about available health insurance coverage to effect automatic enrollment of the child in coverage under section 14.061, Texas Family Code.

DRAFT

Implications

Uninterrupted child support collections reduce the likelihood that custodial parents end up on welfare. In addition, regular and timely child support collections increase the likelihood that former AFDC and non-AFDC Medicaid recipients will remain self-sufficient.

Employers will benefit from keeping their employees current on their child support obligations. Parents with child support obligations are more likely to make timely and regular payments if arrears do not build up.

Finally, with the development of an automated capability to quickly access and process employer information when a non-custodial parent changes employers, OAG should realize substantial savings through increased efficiency.

Fiscal Impact

The voluntary nature of the program makes an accurate prediction of the fiscal impact impossible. As the program expands, substantial benefits, perhaps equivalent to those of some mandatory programs, would be possible over the next five years.

Endnotes

¹ Senate Bill 291, Regular Session, 73rd Legislature.

² Sec. 76.011 *et seq.*, Texas Human Resources Code.

³ "ENHR Program Report," memorandum from Tricia Arredondo to Thomas Neal, Office of the Attorney General, Child Support Enforcement Division, Austin, Texas, October 10, 1994.

⁴ "OCSE Information Exchange; Immediate W-4 Reporting of New Hires," U.S. Department of Health and Human Services, Administration for Children and Families, Office of Child Support Enforcement (Washington, D.C., 1994), p. ____

⁵ "Massachusetts New Hire/Automated Wage Assignment System," Massachusetts Department of Revenue (city?, 1994).

⁶ Information Memorandum OCSE IM-92-01, June 1992.

⁷ Work and Responsibility Act of 1994, S. 2224 and H.R. 4605.

⁸ "State New Hire Reporting Requirements as of December 1, 1993," American Society for Payroll Management (city, state?, 1994), pp. 4-14.

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Modify the Stepparent Deeming Rule

The Texas Department of Human Services should modify an Aid to Families with Dependent Children (AFDC) rule requiring a portion of a stepparent's income to be included in eligibility determination and benefit levels so that it disregards that income for six months.

Background

"Stepparent deeming" rules act as disincentives for mothers to marry. When an AFDC recipient marries, a portion of the new spouse's income is included in eligibility determination and benefit levels. Often, this renders the AFDC recipient ineligible for benefits.

Florida disregards the stepparent's income for six months. The program was implemented in two counties—one with mandatory participation and the other voluntary—beginning in March 1994. Currently, no recipients participate in the program, which required a federal waiver.

New Jersey has a similar program and New York is awaiting approval of a waiver that would change how the income of a stepparent is counted in benefit determination.

Recommendation

The Texas Department of Human Services should implement a pilot program that would disregard the income of the new spouse for six months. The pilot should use voluntary participation in a county with a population of at least 200,000.

Implications

AFDC recipients would receive benefits for six months after marriage as an incentive to marry and to encourage long-term self-sufficiency. This recommendation would require a federal waiver.

Fiscal Impact

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Costs would increase initially because people would qualify for benefits six months longer than under previous rules. Savings should occur in other areas, however, because such a program would promote marriage and encourage long-term self-sufficiency. It is not possible to estimate the fiscal impact of this recommendation.

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Lengthen the Period of AFDC-Unemployed Parent (AFDC-UP) Benefits

Texas' Aid to Families with Dependent Children (AFDC) program should encourage family preservation by allowing two-parent families to receive AFDC-UP benefits for 12 months instead of six.

Background

During the first 25 years of the AFDC program, if the primary breadwinner lost his job, the state could not assist the family as long as he lived at home. That changed in 1961 as AFDC benefits could go to families with unemployed fathers at home. The Family Support Act of 1988 mandated that every state provide an AFDC-UP program. To save costs, the Texas Legislature limited Texas AFDC-UP benefits to six months per recipient.

The Texas Department of Human Services (DHS) favors extending unemployment benefits to 12 months, primarily because it would simplify record keeping. A recipient may not receive more than six payments within a 12-month period, but it could mean more than six payments within a calendar year depending on when the benefit period began.

In 1993, Texas recorded 33,530 AFDC-UP recipients and 745,156 AFDC-Basic recipients. Only a limited number of people qualify for the program because of the "100-hour rule," prohibiting two-parent families from receiving AFDC if either parent works more than 99 hours per month, and the "work history test," requiring the principal earner to prove employment over a period of time before to applying for benefits.

Recommendation

Texas AFDC-UP recipients should be allowed to receive benefits for up to 12 months instead of six.

Implications

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Extending the benefits by six months would encourage the formation of two-parent families. It would simplify policy and procedures for the AFDC-UP program, which should reduce quality control errors.

Fiscal Impact

This fiscal estimate, prepared by DHS, assumes the addition of about 3,000 new cases per year.

<u>Fiscal Year</u>	<u>Total Cost</u>	<u>Federal Funds</u>	<u>State General Revenue</u>
1996	\$8,896,000	\$ 5,413,000	\$3,503,000
1997	8,482,000	5,237,000	3,245,000
1998	8,990,000	5,551,000	3,440,000
1999	9,530,000	5,884,000	3,646,000
2000	10,102,000	6,237,000	3,865,000

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Remove Marriage Barriers for Low-Income Couples

The Texas Department of Human Services should eliminate the work history and 100-hour rule requirements for low-income married couples.

Background

Aid to Families with Dependent Children-Unemployed Parent (AFDC-UP) regulations require that in two-parent households, at least one parent must have been employed at least six of the previous 13 quarters, ending within one year before the application for assistance. Federal regulations also require that one parent must work fewer than 100 hours per month to qualify for AFDC-UP benefits.

Teenage and young parents frequently cannot meet the work history requirement because they are too young to have established an employment history. Eliminating the work history and 100-hour rule requirements would enable more two-parent families to qualify for AFDC benefits as a supplement to income, allowing more low-income two-parent families to work and encouraging self-sufficiency.

This initiative would be similar to Wisconsin's "Parental and Family Responsibility Initiative." Under Wisconsin's pilot program, a young married couple with no work history may work full-time without losing AFDC eligibility. Because the work history requirement is waived only if the couple are married, the Wisconsin program has been nicknamed "Bridefare."¹ The pilot program's objective is to increase employment of AFDC teen parents, spurring them toward self-sufficiency by removing marriage disincentives.

Approximately 26 states either have waivers approved or are awaiting approval to eliminate the work history and 100-hour rule requirement.

Texas Texas Department of Human Services (DHS) received federal permission to waive the work history and 100-hour rule, but a lack of funding prevented implementation. A new waiver would be required to implement the rule changes.

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Recommendation

DHS should eliminate the work history and 100-hour requirements for AFDC-UP (married couples) and secure necessary funding from the Legislature to implement the program.

Implications

Implementing these incentives to self-sufficiency would promote family formation and eliminate the need for public assistance. If AFDC-UP benefits were more available to young couples, perhaps fewer would separate so the mother could receive AFDC benefits. The only downside to implementing these rule changes would be the additional cost of AFDC-UP benefits. This project would require a federal waiver.

Fiscal Impact

Initially, this recommendation would raise costs because more people would qualify for benefits. Savings should occur, however, as waiving the work history and 100-hour rules promote and preserve family formation, decreasing the need for public assistance. DHS has prepared the following estimate.

<u>Fiscal Year</u>	<u>Total Cost</u>	<u>Federal Funds</u>	<u>State General Revenue</u>
1996	\$2,946,000	\$1,849,000	\$1,097,000
1997	3,726,000	2,317,000	1,409,000
1998	4,067,000	2,529,000	1,538,000
1999	4,451,000	2,767,000	1,684,000
2000	4,880,000	3,033,000	1,847,000

Endnotes

¹ Interview with Sharon Rickords, program and planning analyst, Wisconsin Department of Welfare Initiatives, Madison, Wisconsin, October 21, 1994.

DRAFT

Streamline the System and Reduce Fraud

Dozens of agencies and programs in Texas are involved in delivering services to public assistance clients. In reforming these programs, it is only prudent to ask if they can be run more efficiently. Dollars saved in operations may help finance more effective services for at-risk and recipient populations.

Texas' public assistance system involves many complex federal regulations and excessive paperwork. Streamlining operations would provide better service for recipients and more cost-effective and efficient use of tax dollars.

This section reproduces recommendations of the Texas Performance Review (TPR) designed to:

- **strengthen the power and policies of the Health and Human Services Commission to eliminate duplication and fragmentation of services;**
- **streamline the determination of eligibility for public assistance;**
- **reduce the cost of services through the participation of public universities and community colleges and by expanding the use of Electronic Benefits Transfer (EBT); and**
- **expedite payments to child care providers.**

Welfare fraud in Texas is a persistent problem. The Office of the Inspector General in the Texas Department of Human Services (DHS) finds it hard to handle all of its fraud investigation and prosecutorial duties related to food stamps and Aid to Families with Dependent Children (AFDC). New technologies such as EBT and computerized fingerprint imaging will help eliminate welfare fraud.

We recommend that DHS use automated fingerprint image matching technology to prevent public assistance recipients from receiving duplicate benefits. In addition, this

DRAFT

section presents several options proposed by TPR to reduce fraud and administrative error rates.

Strengthen Powers and Policies of the Texas Health and Human Services Commission

The Legislature should strengthen the powers and policies of the Texas Health and Human Services Commission to eliminate duplication and fragmentation in various health and human services agencies and to enhance non-state revenues for health and human services.

Background

In 1991, the Legislature passed House Bill 7 in an attempt to create a less fragmented, more efficient health and human services system in Texas. Although based on TPR recommendations in *Breaking the Mold*, H.B. 7 did not go as far as the report's recommendations.

The Texas Health and Human Services Commission (HHSC) serves as the umbrella agency over the state's health and human service providers, which include the Texas Department on Aging, Texas Commission on Alcohol and Drug Abuse, Texas Commission for the Blind, Texas Cancer Council, Texas Commission for the Deaf and Hearing Impaired, Interagency Council on Early Childhood Intervention, Texas Employment Commission, Texas Department of Health, Texas Department of Human Services (DHS), Texas Juvenile Probation Commission, Texas Department of Mental Health and Mental Retardation, Texas Rehabilitation Commission and Texas Youth Commission. The *Breaking the Mold* recommendation also would have brought two other entities under the HHSC umbrella: the Interagency Council on Early Childhood Intervention and the Texas Department of Protective and Regulatory Services.

HHSC's creation was intended to address the fragmentation and duplication in the administration and delivery of health and human services, and to provide a comprehensive systems approach to services. HHSC was to focus on people—not funding streams or existing organizational structures—and to find ways to save money or to maximize federal funds to permit service expansions.¹ *Breaking the Mold* recommendations provided for the creation of a single governing board with the consolidation of the agencies into one; systemwide planning and budgeting; integration of management information and increased technology; integrated service delivery and administration; co-location of field offices; and common intake and eligibility processes.

H.B. 7 set seven goals for HHSC: maximize federal funds through the efficient use of available state and local resources; provide prompt, comprehensive, effective services with improved access that eliminated architectural, communications, programmatic and transportation barriers; promote the health of the people of Texas; foster the development of responsible, productive and self-sufficient citizens; provide needed resources to people when they cannot care for themselves; protect the physical and emotional safety of the people of Texas; and improve coordination and delivery of children's services.²

In an effort to reduce fragmentation and to make services more accessible to Texans seeking them, H.B. 7 provided for three one-stop pilots to test common intake and eligibility processes and co-location of field offices. The legislation also contained requirements for coordinated transportation planning and an increase in shared computer automation and information. The legislation, however, did not provide all of the tools HHSC needed to meet these goals.

Structure of Health and Human Services

Before the 1991 Legislature, there were 14 primary and 11 secondary health and human services agencies administering about 300 programs, with no major function provided in less than four agencies.

Breaking the Mold recommended consolidating the 14 primary agencies into six departments, to include health, employment and community services. This consolidated agency would have been headed by a Board of Health and Human Services to be responsible for policy development and planning, quality control, contracting, information management and regional administration and oversight for approximately 300 programs.

However, H.B. 7 maintained all of the existing agencies and added another, the Department of Protective and Regulatory Services (PRS). The Health and Human Services Coordinating Council became HHSC.³ H.B. 7 also created the Legislative Health and Human Services Board composed of the Lieutenant Governor, the Speaker of the House of Representatives, the chair of the Senate Health and Human Services Committee, the chair of the Senate Finance Committee, four other representatives and four other senators. This board was given oversight of the health and human services agencies and HHSC. Responsibility for budgeting and planning was assigned to HHSC.

In 1993, the Legislature continued the expansion by making the Interagency Council of Early Childhood Intervention (ECI) into a separate agency known by the same name. One agency, the Texas Youth Commission (TYC) was moved out of HHSC's umbrella, and another related agency, the Texas Juvenile Probation Commission, remained under the health and human services umbrella.

Matters were further complicated by the creation of a work force coordinating council called the Texas Council on Workforce and Economic Competitiveness (TCWEC). The Legislature gave both TCWEC and HHSC broad coordination responsibilities, but neither was given the authority necessary to achieve their stated goals. TCWEC has responsibility for many of the state's work-related programs, such as Job Opportunities and Basic Skills (JOBS), which DHS administers.

Boards and Commissions

Breaking the Mold recommended eliminating the existing agency boards and commissions and establishing a six-member board over HHSC. This board would appoint the HHSC commissioner. The report also recommended existing agencies be eliminated or consolidated into six departments, each with a nine-member advisory board. The HHSC commissioner would appoint department directors with the assistance of the advisory committees.

As passed, H.B. 7 left existing agency board and commission structures with all of their powers intact. The Governor appoints the HHSC commissioner, with the approval of the Senate.⁴

Texas' health and human services agencies continue to operate with primarily separate and uncoordinated programs. Each agency focuses on funding streams for their own clients, programs and agency, sometimes without considering how individual funding streams might be used jointly to benefit multiple agencies or the state as a whole.

The board's independent authority over individual agency budgets and planning set the stage for conflict between HHSC and its umbrella agencies. The Legislature charged HHSC with providing a consolidated health and human services plan and budget.⁵ Individual health and human services agencies, however, have no requirement to make their budgets conform to HHSC's consolidated budget.

HHSC's general powers and duties include the ability to request budget execution for the transfer of funds from one agency to another, to develop a consolidated strategic plan and budget, to maximize federal

revenues and to develop a funds management system. This authority does not, however, include any enforcement power to compel individual agencies to act in concert.

Information Management

The development of a management information system illustrates the difficulties faced by HHSC in requiring timely action on the part of individual agencies. The Legislature charged HHSC with developing a management information system for all health and human services agencies. Together, HHSC and the Department of Information Resources were to create standards for computer systems to enable health and human services agencies to share pertinent data. The integrated data base has been slow to develop and is not operational after several years of planning, although it is now scheduled to be piloted in Spring 1995. Similar delays have hampered efforts to develop an integrated client eligibility determination automation system. Each agency's own information system and issues of confidentiality have complicated efforts to develop management information systems.

Although HHSC has made progress in addressing issues of confidentiality, this has been accomplished with difficulty. Individual agencies have little incentive to work together. A pilot project for the integrated client database network (IDBN) is scheduled to begin in Big Spring in February 1995, with full implementation afterwards. Completion of the project depends on available funding. HHSC also has made progress with other coordination efforts, such as working with the Council on Competitive Government on the consolidation of print shop operations.

HHSC Functions

Currently, HHSC has an obligation to review rules and regulations proposed by the agencies under its direction. HHSC has the authority to send rules back to the proposing agency should it decide the rules are in conflict with other agencies' rules or state policy. This is rarely done. Should HHSC choose to exercise its authority, it has no way to mandate implementation of its recommendations.

The exception is the Medicaid program, a joint federal-state entitlement program that pays for care for certain groups of low-income persons.⁶ HHSC, through its state Medicaid office, exerts considerable authority over state agencies' use of this funding source.

HHSC has had difficulty convincing agencies to cooperate in achieving its goals as stated in H.B. 7. For example, the Legislature required HHSC to oversee the development of a coordinated transportation system for clients needing to get to services or jobs. HHSC released its first comprehensive report on transportation services in September 1994.⁷

Maximizing Federal Funds

Health and human services agencies, including those agencies not under the direction of HHSC, received 66.5 percent (\$14.8 billion) of all federal funds received by Texas during the 1994-95 biennium.⁸ HHSC does not control federal funding streams other than the Medicaid program.

HHSC and health and human services agencies have opportunities to apply for new federal funds and to draw down additional federal funds under existing programs if state funds to match federal dollars can be secured. Funding streams can be reviewed to determine the most favorable arrangement of federal and state funds for the state.

Individual agencies have attempted to maximize federal funds. However, when cooperation is required among agencies to attract new or increased resources, the agencies involved have not been as successful. Many agencies fear losing general revenue funding in the appropriations process. The Department of Protective and Regulatory Services (DPRS) has Adult Protective Services programs that the Legislature has funded from general revenue and some federal funding. Currently, funding of about \$1.5 million in general revenue per year for the Adult Protective Services Program is not being used as a match for any

federal funds. The Adult Protective Services Program is also eligible for funding under the Social Security Act's Title XX.

If HHSC were given the budget authority to move sources of funding from one agency to another, HHSC could provide the same level of services in both agencies and save general revenue. In this scenario, HHSC would move DPRS Adult Protective Services under Title XX where no general revenue funds are required as match and a like amount of DHS child care services would be taken out of Title XX. This would free up \$1.5 million per year in general revenue funding at PRS and leaves DHS child care services to be funded from other sources. Under a 38 percent match rate, \$570,000 of the \$1.5 million in general revenue funds would be required at DHS to fund child care through Title IV-F JOBS, Title IV-A Transitional or Title IV-A At-Risk. This funding arrangement allows a savings of \$933,000 in general revenue funds per year while maintaining the same level of services and funding.

Because individual agencies continue to have responsibility for federal funds related to programs operated by each agency and maintain control over planning and decision making, HHSC's ability to meet its mandate to maximize federal funds under H.B. 7 is limited.

House Bill 7 and HHSC

HHSC has attempted to meet the goals established in H.B. 7.⁹ HHSC has initiated a Medicaid administrative match process, established a process for co-location of individual agency offices, developed a coordinated transportation plan, piloted one-stop service delivery and developed a coordinated strategic planning process for health and human services. In addition, HHSC delivered a consolidated health and human services budget to the 1993 Legislature and assisted them in determining funding priorities for each of the agencies. H.B. 7, however, did not give HHSC the tools needed to accomplish the original goals as envisioned in *Breaking the Mold*. The recommendations below are designed to strengthen HHSC as it was passed in H.B. 7.

Recommendations

- A. The Legislature should mandate that the Texas Health and Human Services Commission (HHSC) develop and implement a plan for an integrated eligibility determination and service delivery system for health and human services at the local and regional levels by September 1, 1996.**

The Legislature should mandate that HHSC design and implement the system with at least a 1 percent savings in administration and other costs and staff from streamlining and eliminating duplication. The savings should be made available for use by HHSC for the development of the integrated delivery system as well as for other health and human services. The Legislature should require HHSC to report the savings from the plan to local, state and federal governments. In coordination with the Council on Competitive Government, HHSC should make and implement recommendations on services or functions that could be provided more cost effectively outside of state government by competitive bidding or by contracting with local governments and other appropriate entities.

- B. The Legislature should give HHSC comprehensive budget and planning authority, effective September 1, 1995, for all agencies under its umbrella for the purpose of establishing the integrated service delivery and eligibility determination system. The Legislature should require that all agency budgets and plans be approved by HHSC before submission to the Legislature and before agencies' budgets become effective. The Legislature should require that HHSC approve any agency modifications to the budgets and plans. The Legislature should give HHSC the authority to bring sufficient funding and staff from the agencies to HHSC to perform these functions.**

The Legislature should move all funds related to automation to HHSC's budget, permit HHSC to pool and combine budgets as needed to develop and implement the most efficient plan for co-location and integrated delivery, and authorize HHSC to have the final approval on any decisions relating to operations and structures for an integrated health and human services delivery system.

To ensure an integrated health and human services delivery system, the Legislature should give HHSC broad authority to move money and personnel as needed. A plan should be finalized by January 1, 1996 and implementation of an integrated health and human services delivery system should be completed by September 1, 1996.

A savings of at least 1 percent of the total administrative budgets should be achieved by eliminating the duplication of administrative functions and services. The choices about how these services may best be delivered could vary. HHSC, working with local entities, is best suited to make the final decision on which agencies and what structure best suits that area. HHSC, as the umbrella agency, could enforce these decisions through the agencies' budgets and strategic plans.

- C. **The Legislature should mandate that HHSC develop and report by October 1, 1996, a plan for further consolidation and elimination of duplication of remaining administrative and service delivery functions, including a feasibility study of a consolidated data center for health and human services agencies, to present to the 1997 Legislature.**
- D. **The Legislature should establish a staff-level working group representing the Governor's Office, Lieutenant Governor's office, Speaker's office, Comptroller's office, and Legislative Budget Board to oversee HHSC's development and implementation of the recommendations concerning the integrated service delivery function.**

This recommendation would give HHSC control of staffing and budgeting for the umbrella agencies for the purpose of developing and implementing an integrated service delivery system. HHSC would be mandated to move forward quickly with implementation of an integrated service delivery plan.

- E. **The Legislature should give HHSC the authority to move funding sources among the health and human services agencies to maximize federal funding.**
- F. **The Legislature should give HHSC the authority to approve health and human services agencies' federal plans and modifications for each funding stream for which an agency is designated the single state agency. The Legislature should require HHSC to evaluate the feasibility of moving the designation of the single state agency to the HHSC for each of these federal funds.**

The authority to receive certain federal funds remains a barrier to the integration of services, functions and programs. This barrier can be removed if authority for these funding sources resides within HHSC and not at the individual agencies. HHSC should be given authority to move funding sources to enhance federal revenues. HHSC should be authorized to experiment with consolidated funding streams to local communities to promote integrated, community based service delivery systems.

Implications

Individual agencies may be opposed to transferring budget authority to one entity. Nevertheless, the transfer of authority is necessary to achieve a truly integrated system. The inherent conflict between the statewide and individual agency goals must be resolved to ensure collaboration.

These recommendations constitute a considerable increase in HHSC's responsibilities and duties. Therefore, HHSC should be allowed to assign staff as needed from the agencies under their direction to enable them to complete the tasks discussed in this report.

Fiscal Impact

TPR's *Breaking the Mold* recommendations estimated a savings of \$10.5 million by reorganizing and consolidating the 14 agencies into six departments under HHSC.

This report's recommendations give HHSC certain functions from the agencies under its umbrella. It does not include the total agency consolidation of the *Breaking the Mold* recommendations. The consolidation of the selected functions, however, should achieve at least the mandated 1 percent reduction in administrative costs, resulting in \$1.9 million in general revenue funds that should be available to HHSC for other health and human services.

Granting HHSC the ability to move funding sources among agencies would have the immediate benefit of saving \$933,000 per year in general revenue for the same services received currently. Other funding sources also may be identified as federal programs change.

Savings to federal funds cannot be determined at this time.

Endnotes

- ¹ Texas Comptroller of Public Accounts, *Breaking the Mold, New Ways to Govern Texas*, June 1991, p. HS27.
- ² Texas Health and Human Services Commission, "House Bill 7 Report," April 12, 1994.
- ³ Texas H.B. 7, 72nd Leg., Reg. Sess. (1991).
- ⁴ Texas H.B. 7, 72nd Leg., Reg. Sess. (1991).
- ⁵ Texas H.B. 7, 72nd Leg., Reg. Sess. (1991).
- ⁶ Texas Health and Human Services Commission, State Medicaid Office, *Texas Medicaid in Perspective*, (May 1994), glossary p. 17.
- ⁷ Office of Client Transportation Services, *Report to the Commissioner of Health and Human Services, Findings and Recommendations of the Office of Client Transportation Services*. Austin, Texas, September 1, 1994.
- ⁸ Legislative Budget Office, *Fiscal Size Up 1994-95 Biennium: Texas State Services* (Austin, Texas, 1994), pp. 2-7.
- ⁹ "House Bill 7 Report."

DRAFT

Increase Local Flexibility in the Delivery of Health and Human Services

The Legislature should authorize the Health and Human Services Commission to waive or grant exemptions to regulations to allow greater local flexibility in responding to community needs.

Background

Many communities raise and spend funds locally to respond to their own health and human services needs. Local governments may be forced to raise these funds because their own solutions do not conform to state or federal rules that stipulate specifics such as who can use the money and how. Such barriers to local uses of state and federal funds often lead to separate and duplicative efforts.

When a state develops a new approach to health and human services that requires an exemption from a federal statute or rule, the state can apply for a waiver to implement its new program. Local governments have no similar process for relief from the regulatory requirements of the state and federal governments.

Enhancing Flexibility

In some instances, money may not be the issue. A community may wish to provide a service or a program and find a state rule or regulation in the way. For instance, in San Antonio, several people with mental retardation were offered evening employment on a commercial janitorial crew. The Texas Department of Mental Health and Mental Retardation's rules, however, required that active treatment, training or work be conducted only during the day. This rule made them ineligible for a good employment opportunity.

In 1991, the Legislature gave the commissioner of education the authority to exempt or waive certain rules and regulations if the proposed change had a clear focus, improved student performance and demonstrated community involvement.¹ This has given school districts regulatory relief and access to innovative programs, while eliminating rules that hampered student achievement.

DRAFT

Iowa has acted to make its program funding for families and children more flexible. For example, Iowa's funding for child welfare and juvenile justice services once permitted only families in crisis to receive services. Prevention services were not eligible for funding under this program. A subsequent pilot project authorized the consolidation of funding for traditional child welfare and juvenile justice services into a single locally directed child welfare fund.

Iowa's strategy allowed comprehensive local planning and funding with support and technical assistance from the state level. The planning process required the collaboration of county-based social services, the juvenile court system and the county board of supervisors. This coalition was broadened to include local providers like the United Way, local hospitals, mental health centers and private social service agencies. This strategy promoted individualized interventions based on client families' short- and long-term needs.²

Community involvement with and ownership of programs resulted from Iowa's funding strategy. Joint planning avoided duplication; local groups joined their local governments in the community planning process, supplying human and financial resources; and innovative treatment approaches focused on therapeutic foster care, individualized family services, day treatment programs, enhanced day care and neighborhood support services and other services designed to reduce out-of-community placements. As a result of this local involvement, grants and other community funding for these types of services increased.

Recommendations

- A. The Legislature should authorize the commissioner of the Health and Human Services Commission (HHSC) to waive or grant exemptions to regulations of health and human services agencies under HHSC's umbrella to allow greater flexibility in responding to communities' needs.**

The Legislature should allow the commissioner of HHSC to waive rules for up to three years at the request of local governments' petitions, if the petitions have a clear focus, improve the health of or service access by a consumer, demonstrate community involvement and have a

DRAFT

strong evaluation component. This authorization should be limited to those circumstances where the commissioner has determined that a waiver or exemption is necessary to improve consumer health or to facilitate access to services. HHSC should work with communities to obtain federal exemptions and waivers to facilitate innovative and effective health and human services programs. The Legislature should not allow the commissioner to waive rules that affect consumer health, safety or civil rights. The commissioner should respond to all waiver requests within 90 days of submission of a completed application.

B. HHSC should provide technical assistance and information to local communities to enable them to get the maximum value from their local health and human services funds.

In addition to providing information, HHSC should act as an advocate for needed changes in federal rules or laws. In the event a community-designed program requires a federal waiver, HHSC should help state health and human services agencies seek waivers from the federal government on behalf of communities.

C. The Legislature should authorize creation of a demonstration project to allow cities and counties to pool social service program moneys—such as Aid to Families with Dependent Children (AFDC), food stamps and Job Opportunities and Basic Skills (JOBS)—to fund welfare programs that address local needs.

HHSC would be responsible for administering the demonstration project. HHSC would establish policy guidelines and specific procedures for communities to submit proposals and would work with the Texas Department of Human Services to request waivers of federal rules as necessary.

Demonstration projects should be limited to communities with a fiscal agent. Projects should be funded on a fiscal year basis for both ongoing and short-term projects. Local communities would decide which funds to combine based on HHSC guidelines. Every proposal

DRAFT

should contain an evaluation component to enable HHSC and local funding sources to determine whether the program has succeeded.

Communities would use state and federal dollars made available through HHSC based on historical funding patterns and population, plus additional grant money to tailor social service programs to address the unique needs of each area. Proposals submitted for the use of state dollars should result in no additional costs to the state. Local communities would not be allowed to pool funds with the Medicaid program.

Implications

These recommendations will not provide federal regulatory relief to local communities, or permit them to use a dedicated revenue stream for non-dedicated purposes. However, they should provide local government with the means to implement programs which better meet the needs of the community.

Fiscal Impact

HHSC would incur additional costs in providing technical assistance to local communities. Funds needed to provide technical assistance and develop an integrated health and human services system should be obtained from health and human services agencies under HHSC's direction. HHSC should have the ability to reallocate staff from agencies under its direction, or to contract for needed staff to meet the demand of local communities.

The fiscal impact of these recommendations cannot be estimated because of the discretion given to HHSC to adjust staffing to meet local demand for technical assistance.

HHSC's assistance should produce more innovative and flexible local programs. Local communities should be held accountable for outcomes and any additional costs incurred as a result of implementing an innovative approach to a problem. Increased funding flexibility should improve local communities' economies and tax bases, but the impact of this measure on state finances cannot be estimated.

DRAFT

Endnotes

¹V.T.C.A., Education Code, Sec. 11.273

²Iowa Department of Human Services, *Iowa Child Welfare Decategorization Project: A Model of Collaboration* (Des Moines, Iowa, February 16, 1994), p. 1.

Integrate Eligibility Determination Systems for Health and Human Services Programs

The Legislature should require the Health and Human Services Commission to integrate the eligibility determination process for health and human services programs.

Background

The eligibility determination process for health and human services programs is costly and burdensome; it will consume some \$430.5 million in state and federal funds in fiscal 1995. By comparison, in the same year the total grant value for Aid to Families with Dependent Children (AFDC) is projected at just \$603 million, while food stamp benefits will total \$2.5 billion.¹

The eligibility determination process requires caseworkers, employees devoted to error and fraud reduction and recovery, data entry personnel, and supervisory and administrative staff. In all, nearly 13,000 employees in Austin and 380 field offices work in roles related to eligibility determination.

The Texas Department of Human Services (DHS) estimates that its caseload will rise to nearly 326,000 clients per month in fiscal 1997. DHS also anticipates that federal sanctions levied on Texas for high error rates in the AFDC and food stamp programs will total \$6.7 million in fiscal 1995, \$14.6 million in fiscal 1996 and \$20.7 million in fiscal 1997.² Inadequate automation contributes to the high incidence of error and fraud within these programs and to the increasing frustration of front-line workers.

At present, DHS workers often are required to repeat a series of data entry steps for each client, causing delays for both workers and clients, and multiplying opportunities for error and confusion to creep into the process. Moreover, some aid programs require paperwork and manual data entry, which interrupt and further delay the overall process. To many experts, at least part of the answer to improving the system's efficiency lies in greater integration—that is, the ability to determine eligibility for a number of state and federal aid programs through a single automated procedure.

DHS' automated eligibility system was more efficient and offered more integration than those of most other states throughout the 1980s; however, changes in Medicaid and other programs and increasing caseloads have strained the system's ability to deliver efficient eligibility determination. Eligibility workers must weigh more than 6,000 rules for each client without the help of adequate automation featuring built-in decisionmaking functions.

Today, DHS's system will not support all current Medicaid programs. Moreover, the system can review clients for only two assistance programs at a time. These problems are exacerbated by DHS' increased caseload and the slow turnaround time on automation changes.³

Commercially Available Systems

As TPR's *Against the Grain* noted in 1993, existing computer systems could address some deficiencies in the state's eligibility determination system while a long-term solution is developed. Such commercial systems could be used for initial client intake at DHS, and could be modified to accommodate other parts of the determination process, such as case information changes.

Commercial systems such as these are used by hospitals to determine eligibility for Medicaid, AFDC, food stamps and other state and local programs. Several major Texas hospital systems, including the

Harris County Hospital District (HCHD), use a proprietary software system to enter clients into the eligibility determination process. The software incorporates "rules-based" decisionmaking components that relieve its users of responsibility for many judgments regarding the often complex rules determining eligibility. The system also is fully integrated, meaning that it can determine eligibility for multiple programs simultaneously.

The complex and labor-intensive nature of DHS' current eligibility system requires considerably higher personnel costs than do more fully automated systems. Hospitals using the proprietary software generally hire clerical staff with high school diplomas, while DHS eligibility workers, who must understand and make decisions concerning literally thousands of rules, are required to be college graduates. Hospital workers handle a significantly higher number of cases than DHS workers with similar duties. Training costs follow a similar pattern; for example, HCHD's training costs average \$3,900 per worker for a six-week course, compared to \$18,000 for 12 to 15 weeks of training for each DHS worker.

Other states use the private sector for eligibility screening or case preparation up to the point of eligibility certification. Since 1990, Louisiana has contracted with a private firm for Medicaid eligibility studies. The firm conducts interviews and collects application data for the Medicaid, food-stamp and AFDC programs and sends a packet of material to state agencies for final eligibility determination. The Louisiana Medicaid office also hires consultants who sample cases to ensure quality control. This approach appears to overcome many of the objections to privatizing this function that DHS has raised in the past.

Health and Human Services Commission's Role

DHS stated in an August 1994 report to the Comptroller's office that it would test a portion of a rules-based eligibility determination system in fiscal 1995. DHS chose an in-house approach rather than obtaining a commercially available system. DHS estimates a fully integrated eligibility system could be implemented by fiscal 1998. DHS' development of the new system is estimated to cost a total of \$6.6 million over fiscal 1995, 1996 and 1997.

Many health and human services agencies could use DHS' eligibility determination system for Medicaid reimbursed services such as nursing home care or acute medical services. Ideally, the Health and Human Services Commission (HHSC) should spearhead an effort to find the most efficient system available to benefit all its agencies.

HHSC already has implemented three "one-stop" pilots that use an integrated eligibility screening tool. HHSC is planning to build on the one-stop concept by examining automated systems needed to establish an integrated eligibility determination system. HHSC could implement the integrated health and human services system more quickly with clear legislative mandate and authority.

Recommendations

- A. The Legislature should mandate that, by September 1, 1996, the Health and Human Services Commission (HHSC) must implement an automated integrated eligibility determination system for use by all health and human services agencies.**

HHSC should consider contracting with private firms to conduct client application processing for programs like Medicaid, AFDC and food stamps. HHSC should examine the operations of other states to identify programs where such an approach would be effective.

- B. The Legislature should mandate that by February 1, 1996, the Health and Human Services Commission must develop workload standards for eligibility determination and certification staff, including caseloads, training and other factors, consistent with private sector practices.**

In addition, HHSC should examine cost-effective methods to address error rate and fraud concerns, including the use of more experienced caseworkers on a limited basis in case review.

Eligibility technician requirements should include a high school diploma or its equivalent, not a degree or an advanced degree as is currently required. The use of more qualified and higher-paid eligibility workers should be phased out through worker attrition and replaced with lower-level staff beginning in fiscal 1995. The minimum level of replacement should be 20 percent of caseworkers by September 1, 1996, and 20 percent each fiscal year thereafter, with all remaining higher-level workers phased out by September 1, 2001.

- C. **The Legislature should direct the Health and Human Services Commission to develop cost-effective "one-stop" approaches to integrated health and human service delivery, using existing state, local and private resources, by September 1, 1997.**

The HHSC should determine the feasibility of one-stop or service-center approaches at hospitals, schools, mental health and mental retardation centers, health clinics, commercial locations in malls and other appropriate locations. Effective September 1, 1995, the Legislature should give HHSC authority to determine the location of all health and human services agency offices as leases expire, and to control state-owned building occupancy by health and human services agencies. The Legislature should mandate that all health and human services agencies cooperate and report to HHSC on the development of the integrated health and human services delivery system.

Implications

HHSC should be authorized to implement an automated integrated eligibility determination system for all health and human services agencies. It should have clear legislative mandates to implement such a system by September 1, 1996.

HHSC should determine the best approach to meet the deadline. Planning and development of the new system could employ competitive bidding and outside expertise where appropriate.

Fiscal Impact

The fiscal impact of these recommendations could be substantial over the long term. Expected results include increased worker productivity, fewer supervisory staff, lower training costs, fewer paper and manual operations, fewer errors and, potentially, a lower incidence of fraud. Although the cost in the first year of the biennium would be \$1.4 million, net savings for the biennium would be \$5.6 million in general revenue. Five-year savings would be \$36.6 million in general revenue, with similar savings in federal funds. After the integrated eligibility system is fully implemented in fiscal 2001, a savings of \$24.7 million per year in state and federal revenue should result.

The fiscal estimate assumes that implementation of the policy would begin in fiscal 1997, with caseworker positions replaced by technicians at a rate of 20 percent per year. This would be handled primarily through the high attrition rates historically experienced among DHS caseworkers. Although productivity per worker would be expected to increase 25 percent with the new software, TPR conservatively estimates a 10 percent staffing reduction in the first year of implementation.

To achieve certifiable savings, appropriations to DHS would have to be reduced accordingly.

Fiscal Year	Savings to the General Revenue Fund	Cost to the General Revenue Fund	Net Savings/(Cost) to General Revenue Fund	Change in FTEs
1996	0	(\$1,387,000)	(\$ 1,387,000)	0
1997	\$ 8,337,000	(1,387,000)	6,950,000	-647
1998	9,345,000	0	9,345,000	-1,295
1999	10,352,000	0	10,352,000	-1,295
2000	11,359,000	0	11,359,000	-1,295

Endnotes

- ¹ Texas Department of Human Services, *FY 1995 Operating Plan and FY 1996-1997 Appropriations Request* (Austin, Texas, July 21, 1994), pp. 53-54.
- ² *FY 1995 Operating Plan and FY 1996-1997 Appropriations Request*, pp. 53-54.
- ³ Interview with field office staff, Texas Department of Human Services, Austin, Texas, August 18, 1994.

Streamline Eligibility Determinations for Local and State Health Care Providers

The Legislature should require health care providers to streamline eligibility determination for Aid to Families with Dependent Children, food stamps, Medicaid and other services.

Background

Hospitals want to qualify all eligible patients for Medicaid in order to reduce uncompensated patient care. The most common hospital expenses paid for by Medicaid are births or short-term emergency care for young children and their mothers. In both instances, once mothers give birth or the emergency service is delivered, there is little incentive for the patient to return to the hospital with documentation for Medicaid certification. If such patients do not become eligible for Medicaid, the hospital pays the entire cost of the service.

To ensure that Medicaid claims are pursued for the greatest number of eligible patients, hospitals and other health vendors in Texas are undertaking Medicaid eligibility functions without cost to the state. For example, the Harris County Hospital District (HCHD) contracts with a software company to determine eligibility using proprietary software to do the eligibility study for Medicaid and Texas Department of Human Services (DHS) welfare programs, including Aid to Families with Dependent Children (AFDC) and food stamps.

Current DHS agreements for vendors to provide eligibility functions are cumbersome, duplicative, costly to state and local governments, and do not diminish the DHS workload. They result in the data being entered three times.

For example, an HCHD worker interviews an applicant using the automated system and determines the applicant's program eligibility and the amount of benefits. The worker prints the information and refers the applicant to a DHS clerk, who schedules an appointment with the DHS caseworker. When the caseworker sees the client, there is another interview, and all the information is re-entered by hand onto an application form, which is then entered into the DHS SAVERR system, bypassing Harris County's automated file that has already been created.¹

HCHD pays the cost of HCHD workers who take Medicaid applications and obtain required evidence of eligibility. The hospital district pays 50 percent of the cost of DHS workers located in hospital facilities.

In addition to HCHD, the University of Texas Medical Branch at Galveston and other hospitals use the same automation system and also pay for DHS workers.

Single State Agency Limits to Outsourcing Eligibility

Federal "single state agency" requirements restrict the delegation of administrative discretion to the designated single state agency for Social Security Act, Title XIX, which, in Texas, is DHS. Although it appears that single state agency restrictions prohibit contracting out the actual certification of eligibility, they do not explicitly prohibit DHS from contracting out other aspects of the eligibility determination process. Under contract with DHS, other state or local agencies or private vendors could perform all eligibility activities short of the actual certification of eligibility.²

If acceptable performance standards were developed, contracting for all aspects of the determination process other than actual certification of entitlement would promote efficiency, eliminate duplication, and save state and health care provider dollars. Provider determinations should be held to the accuracy standards set by contract. The federal Department of Health and Human Services has established "tolerance levels" for state payment errors in public assistance programs. Payment errors above the tolerance level can result in disallowances of federal financial participation.

Automated System Capability for Processing Public Assistance Determinations

The system used in Harris County has greater capability as an intake module than the automated Generic Work Sheet used by DHS eligibility workers. It is not the long-term solution to DHS automated system needs because it uses the same system architecture that DHS uses—an architecture that is scheduled for replacement in six years. The federal Administration for Children and Families, Health Care Financing Administration and Food and Nutrition Service have approved DHS' Advanced Planning Document for development of a new, state-of-the-art system to replace the current DHS system.

In coordination with the Texas Health and Human Services Commission's (HHSC) development of a one-stop service delivery model, DHS has developed a new eligibility screening tool, TESS, which screens possible eligibility for a number of programs across state agencies, and refers clients to those programs. TESS is currently in 125 Texas Department of Health and DHS offices. HHSC plans to start pilots in the spring of 1995 to test the concept of integrated eligibility.

Recommendations

- A. The Texas Health and Human Services Commission (HHSC) should expand its integrated eligibility pilots to include streamlining eligibility determination at two additional sites, Harris County Hospital District (HCHD) and University of Texas Medical Branch (UTMB) at Galveston.**

Contracts with these sites would specify performance-based measures to ensure error rates are kept within acceptable limits. The hospitals should be allowed to simplify processes as much as is feasible and to use TESS and proprietary software in the pilots. Further refinements are encouraged. For a short-term solution, the Texas Department of Human Services (DHS) should develop the ability to accept automated file information directly and establish standards for other automated systems. Procedures developed for this process should include methods to ensure confidentiality of records and the security of DHS data.

- B. HHSC should identify ways to enable staff in state agencies other than DHS and contractors to provide more efficient eligibility studies, determinations and certifications.**

Such proposals will need to deal with issues of error rate, state liability and potential expansions of client populations.

Implications

This proposal does not remove the certification responsibility from DHS. The savings below assume that additional auditing and error-rate monitoring will occur to ensure that error rates are kept within acceptable limits. This proposal is intended to expand the development of one-stop service centers, determining eligibility for multiple services at locations of greatest convenience.

In the case of UTMB at Galveston, expediting the application process is imperative. Uncompensated care for additional patients who do not qualify for Medicaid will be paid for with state dollars, rather than with federal dollars matched at a greater than 60 percent rate.

Fiscal Impact

The hospital and DHS staff time required to complete an eligibility determination in the proposed system is about 60 percent less than in the current system. The savings would be somewhat reduced by the additional evaluation and auditing to ensure that error rates are maintained within acceptable limits.

Based on the streamlining option described above, the following savings are estimated for the HCHD and UTMB at Galveston. For HCHD, the local dollar savings arise from reducing the number of DHS workers for which HCHD pays the matching rate. The reduction in workers may be absorbed into DHS positions due to the high turnover and vacancy rates in the Houston area. The state savings come from the elimination of clerical positions for which the state pays general revenue matching funds; these employees are located in the HCHD offices and perform data entry of the manually completed DHS forms. The federal savings come from the elimination of federal payments for both types of positions.

For UTMB at Galveston, the savings due to eliminating out-stationed worker positions are savings to state general revenue since the matching funds are paid by the state rather than by the local government.

Over the five-year period, Harris County Hospital District and local taxpayers could save almost \$1 million, the state could save \$1.2 million, and the federal government could save \$2.1 million. To achieve savings of \$466,000 for the 1996-97 biennium, appropriations must be reduced by \$155,000 for DHS and by \$311,000 for UTMB.

Fiscal Year	Gain/(Loss) to Local Funds	Savings to the General Revenue Fund	Change in FTEs
1996	\$196,000	\$233,000	-41
1997	196,000	233,000	-41
1998	196,000	233,000	-41
1999	196,000	233,000	-41
2000	196,000	233,000	-41

Endnotes

- ¹ On site visit, Harris County Hospital District, August 25, 1994; subsequent phone interviews with Jack Biggerstaff, Jim McCormick and Jeri Crowder, HCHD, August through October 1994.
- ² Comptroller of Public Accounts, "Outsourcing of Medicaid Eligibility Determinations," MAXIMUS, October 13, 1994.

Expand the Use of Electronic Benefits Transfer Technology

The Texas Department of Human Services should add government benefit programs to Texas' electronic benefits transfer system to better serve clients and reduce administrative costs.

Background

Electronic benefits transfer (EBT) delivers public-assistance benefits via plastic magnetic-stripe cards, usually through automated-teller machines and point-of-sale (POS) terminals. National EBT planning is directed by the Federal EBT Task Force, which comprises representatives from the U.S. Office of Management and Budget, Department of Health and Human Services, Department of Agriculture and Department of the Treasury. The U.S. Treasury manages EBT's federal financial functions. Texas has begun using EBT to transfer payments for its food stamp and Aid to Families with Dependent Children (AFDC) programs.

EBT has many advantages. It improves service by distributing benefits faster and more efficiently than paper-based systems; saves the costs of printing and mailing of checks, coupons and vouchers; eliminates investigations for thousands of lost and stolen check claims; reduces employee time and the use of paper products; creates an electronic audit trail for every transaction, making it easier to detect and prosecute fraud; helps reduce illegal check, coupon, and voucher trading; and results in lower check cashing fees for the clients.

In May 1994, the Federal EBT Task Force outlined programs that could use EBT technology to improve customer services. These programs were classified according to their readiness for addition to a federal integrated EBT system. Tier 1 consists of large programs with demonstrated success that can proceed rapidly in the first phase of development; programs in Tier 1 include food stamps, AFDC, federally administered Supplemental Security Income and Railroad Retirement (RR). Tier 2 programs have similar requirements as Tier 1 and provide cash benefits; tier 2 programs consist of federal and military pensions, veterans benefits and energy assistance. Tier 3 programs include Women, Infants and Children (WIC), Medicaid, Medicare, student loans, housing assistance and unemployment. The complex administrative, benefit delivery, policy and technical requirements of Tier 3 programs make their rapid implementation more challenging.

EBT in Other States

EBT is a relatively new concept and started with small projects. Most states with EBT programs are using demonstration projects that cover only part of the state or are still in the planning stages. AFDC and food stamp programs are the most common benefits being converted to EBT.

Nineteen states have submitted preliminary advanced planning documents for EBT implementation to the federal Food and Nutrition Service and the Administration for Children and Families. Eight other states are studying EBT. Six states (Iowa, Minnesota, New Jersey, New Mexico, Ohio and Pennsylvania) are operating small demonstration systems. Minnesota's programs include refugee assistance and state general assistance benefits. Ohio delivers food-stamp benefits to about 12,000 households, and has issued a request for proposals for statewide expansion. Pennsylvania began EBT in 1984 and created the nation's first food stamp EBT project. Pennsylvania uses POS terminals to deliver food stamp benefits and intends to add AFDC benefits.

Wyoming and South Carolina have awarded EBT contracts and are implementing demonstration projects. The Wyoming EBT project began in 1991 with the WIC program. Universal pricing codes speed up WIC transactions and ensure that only products eligible for reimbursement are purchased.

Maryland is the only state with an EBT system operating statewide. The system, which started in 1989, now delivers about \$55 million monthly in food stamp, AFDC, child support and general assistance through a single-card system to more than 200,000 recipients.¹ A recent evaluation of Maryland's EBT expansion showed that it generates cost savings and improves service to benefit recipients.²

EBT in Texas

Texas will soon have the nation's largest EBT program. The program currently delivers food stamp and AFDC benefits in Chambers and portions of Harris counties. The food stamp caseload of Harris County (158,322) is 17 percent of the statewide food stamp caseload (931,307), while the AFDC caseload is more than 19 percent (50,546) of the statewide total (261,424). Chambers County has smaller caseloads (564 and 145 for food stamps and AFDC, respectively) that will test the system for rural service delivery.³ The Texas program will be operating statewide by November 1995.

In addition to the EBT program, Houston and Dallas are sites for a federal EBT demonstration project supplying selected benefits to about 8,700 clients.⁴

Texas EBT Expansions

While most child support collected for families on AFDC goes to the federal and state governments to offset AFDC payments, an AFDC recipient may collect the first \$50 of the monthly child support payment if it is not more than the AFDC check. This \$50 "disregard" could be added to EBT in the future.

Although Medicaid is considered a Tier 3 program, the economic significance, importance and size of the Texas Medicaid program suggest it should be considered for expansion into EBT. The state share of Medicaid spending is projected to grow to about 17 percent of Texas' budget in 1995.⁵

The Medicaid vendor drug and drug rebate programs could also be added to EBT. Almost 19 million Medicaid prescriptions, costing almost \$445 million, were filled in Texas through the vendor drug program in fiscal 1993.⁶ An August 1994 report by the Office of the State Auditor estimated losses of revenues from uncollected, disputed rebates and lost interest at \$3.5 million each year.

Adding benefit programs that are already linked administratively should save EBT implementation costs. The Department of Human Services currently determines eligibility for AFDC, food stamp and Medicaid programs.

In 1993, the cash value of monthly benefits and services for a typical AFDC family was \$717; \$241 for Medicaid, \$292 for food stamps and \$184 for AFDC.⁷

The unemployment insurance program at the Texas Employment Commission (TEC) could be added to Texas EBT. An estimated 50 percent to 70 percent of unemployment insurance recipients do not have bank accounts for direct deposit and would be good EBT candidates. TEC paid more than \$1 billion to more than 500,000 claimants in fiscal 1993.⁸

Recommendation

The Health and Human Services Commission should set a target date for adding new electronic benefits transfer (EBT) programs statewide.

To determine the best way to handle this, a state interagency task force on EBT should be created to identify and address problems. The task force should be chaired by the Comptroller and composed of state agency representatives from the Health and Human Services Commission, Texas Department of Human Services, Texas Employment Commission, Office of the Attorney General, Texas Rehabilitation Commission and the Texas Department of Health; two retailer representatives who maintain EBT point-of-sale equipment; two representatives of banks or owners of automatic teller machines (ATM's); and two consumer or client advocacy representatives. The task force would serve as the state counterpart to the Federal EBT Task Force.

The programs to be added should be determined by the task force based on merit. Among the factors that should be used for determining merit would be savings to the state, ease of addition to existing infrastructure and number of clients served.

The interagency task force should pursue state/federal partnerships that facilitate the development of EBT expansion programs. The task force should track and distribute federal legislation, as well as other states' EBT-related information.

The interagency task force would ensure efficiency and planning coordination, as well as encourage cooperation and expansion.

Implications

Adding programs to existing EBT systems should improve accuracy and efficiency, lower administrative costs, reduce fraud and abuse and improve services to clients. The current EBT contract locks in administrative costs for seven years.

Fiscal Impact

The fiscal impact of various EBT expansions cannot be determined without knowing the extent of financial participation by state and federal governments, as well as stakeholders.

The costs of expanding EBT should be minimal because these are additions to the existing infrastructure. Savings can increase by combining many benefits on one card and locking in administrative costs over the life of the contract with the vendor operating EBT.

Creation of an interagency task force for EBT would have no fiscal impact to the state.

Endnotes

- ¹ Department of the Treasury, Financial Management Service, *EBT Status Report* (Washington D.C., August 1992), p. 19; and Federal EBT Task Force, *Creating a Benefit Delivery System that Works: An Implementation Plan for Nationwide EBT* (Washington D.C., May 1994), Appendix B, p. B-4.
- ² United States Department of Agriculture Food and Nutrition Service Office of Analysis and Evaluation, *Evaluation of the Expanded EBT Demonstration in Maryland*, by Abt Associates, Inc. (Cambridge Massachusetts, May 1994), p. 15. (Consultant's report.)
- ³ Texas Department of Human Services, *Implementation Advance Planning Document, Electronic Benefit Transfer* (Austin, Texas, November 1992), Appendix A.

Endnotes (continued)

- ⁴ Federal EBT Task Force. *Creating a Benefit Delivery System that Works*, Appendix B, p. B-2.
- ⁵ Texas Comptroller of Public Accounts. *Forces of Change*. Vol. II, Part I (Austin, Texas, November 1993), p. 280.
- ⁶ Interview with Edli Colberg, Texas Medicaid Office, Austin, Texas, June 1994.
- ⁷ The University of Texas at Austin, LBJ School of Public Affairs, Center for the Study of Human Resources. *Welfare in Texas: Selected Findings and Implications*. (Austin, Texas, July 1994), p. 7.
- ⁸ Interview with Jean Mitchell, unemployment insurance program director, Texas Employment Commission, Austin, Texas, September 12, 1994.



Expedite Payments for Child Care

The Texas Department of Human Services should expedite the payment process for vendors in the Texas Child Care Management System.

Background

The lack of affordable child care is a major obstacle to self-sufficiency for welfare recipients and keeps working poor families on the brink of unemployment. Texas and other states subsidize child care for low-income families with a combination of federal, state, local and private funds. These funds come to the state's child care system through several different programs, each with its own strict eligibility guidelines. For instance, some programs are for families receiving welfare payments, others are for families who have just left the welfare rolls, and still others are for foster children.

Since March 1991, the Texas Department of Human Services (DHS) has administered most of the state's low-income child care programs through the Child Care Management System (CCMS). CCMS offers a central data system that integrates funding for all the child care programs DHS manages. The system automatically shifts families from one funding stream to another according to their eligibility, so that families can receive uninterrupted child care as their circumstances change.

CCMS uses 20 regional contractors. These contractors manage all the child care paid through CCMS in the state's 27 CCMS service delivery areas. DHS selects contractors through a competitive process repeated every three years; the current three-year cycle began November 1, 1994. CCMS contractors act as liaisons between families and child care providers. They determine eligibility for assistance and help eligible families locate child care.

CCMS contractors recruit child care vendors to participate in the system. Any licensed or registered child care provider can be a CCMS vendor if they carry at least \$300,000 worth of liability insurance and sign a vendor agreement.¹ CCMS contractors also handle vendor payments for all CCMS-paid care. CCMS pays child care providers after the fact, unlike private clients who must pay up front.

To receive payment, a vendor must maintain daily paper attendance logs as proof that eligible children have received care. DHS provides the attendance logs to vendors preprinted with each child's name. The vendor mails completed logs to the CCMS contractor, where the attendance data are keyed into a computer that transmits them directly to the DHS main computer. The computer verifies that the vendor can be paid for each child on the list and calculates the reimbursement amount. DHS forwards the payment information to the Comptroller's office, which deposits the vendor's payment in the contractor's account electronically.²

According to the DHS "Child Care Management Services Fact Sheet," contractors pay vendors for child care and are then reimbursed by DHS.³ This statement is somewhat misleading—in fact, contractors do not pay vendors until DHS has given them the funds to do so. Upon receipt of the vendor's attendance log, the CCMS contractor prepares a check for the vendor. The contractor does not release the check to the vendor until the electronic deposit comes from the Comptroller's office. Typically, 14 to 21 days elapse from the close of the billing period until the vendor receives payment.⁴

CCMS provides an efficient mechanism for managing an array of federal child care funds, but the system is too slow in paying child care providers. DHS believes that payments could be expedited if CCMS were permitted to "front" CCMS contractors more of their funding, but the problem could be solved more simply through available technology.

Recommendations

- A. The Texas Department of Human Services (DHS) should expedite payment of vendors in the Texas Child Care Management System (CCMS) by processing all attendance data centrally using scannable attendance logs.**

Scannable forms are used for such things as standardized tests and voting. An electronic scanner reads the form and relays the information to a computer. Based on the scanned information, the computer can, for example, process a payment or generate a report.

Several agencies use scannable forms for data they collect on paper. The Texas Employment Commission collects unemployment insurance data on scannable forms, while the Comptroller's office uses scannable forms for collecting tax data. The Department of Insurance also uses the forms.

DHS has several options for processing scanned forms. The agency could use one of its existing scanners, contract with another agency for an appropriate scanner or contract with a private firm. DHS should explore all these options, choosing the one that results in the lowest cost and the shortest turnaround time on vendor payments.

- B. DHS should encourage vendors to opt for electronic funds transfer (EFT) directly from the Treasury, rather than waiting for checks from CCMS contractors.**

EFTs made directly to vendors would further reduce payment time and contractors' administrative responsibilities.

Implications

Converting to scannable forms would not reduce the amount of information available to CCMS contractors. These contractors are already connected on-line with DHS, and would have immediate access to attendance information as it was scanned at the central office.

CCMS would need few modifications to accommodate scannable attendance logs. DHS already mails preprinted logs to each participating vendor, and each vendor already mails the logs back. DHS would simply modify the current form to be scannable, and the logs would come to DHS rather than the CCMS contractors.

Expediting payments to child care providers would increase the availability of care for low-income families, helping more families to become self-sufficient.

Fiscal Impact

The fiscal impact of this recommendation cannot be determined. The major unknown factors are the feasibility of using DHS's existing scanners and the current cost of data entry by CCMS vendors. CCMS processes 4,500 to 9,000 attendance logs per month, depending on how many vendors opt for bimonthly billing.

Data collected on scannable forms contains fewer errors than key-entered data. Scanning saves time over key entry. Lower error rates and reduced processing time lower costs. The Comptroller's office estimates that the cost of capturing data on scannable forms is 65 percent of the cost of collecting data that must be key-entered, although there are startup costs including programming and form development.

Endnotes

- ¹ Texas Department of Human Services, *1993 CCMS Contractor Manual* (Austin, Texas, November 1, 1993), pp. 2-11-2-12.
- ² Interview with Charlotte Brantley, director, CCMS, Texas Department of Human Services, August 31, 1994.
- ³ Texas Department of Human Services, "Child Care Management Services Fact Sheet," February 1991. (Handout.)
- ⁴ Interview with Charlotte Brantley.

Reduce Public Assistance Fraud in Texas

The Texas Department of Human Services should explore all means of detecting and reducing public assistance fraud and investigate all fraud referrals that are potentially productive.

Background

The Office of the Inspector General (OIG) at the Texas Department of Human Services (DHS) investigates suspected fraud by applicants or recipients in the Aid to Families with Dependent Children (AFDC), food stamp and Medicaid programs.

DHS established the fraud prevention investigation program to assist caseworkers in determining client eligibility for AFDC, food stamps or Medicaid. Referrals made by caseworkers are based upon pre-established criteria following attempts to verify and document unresolved eligibility factors.

Because an application for public assistance must be processed within a specified time period, OIG allows five days for the completion of each fraud investigation for AFDC and the food stamp program, although it has a variable timeframe for the investigation of Medicaid fraud. Depending upon the results of an investigation, the appropriate action (approval, approval with reduced benefits or denial) concerning benefits is the responsibility of the caseworker.

A post-fraud investigation program examines suspected fraud by recipients of AFDC, food stamps or Medicaid. Referrals may come from members of the public, but most come directly from DHS caseworkers. The criteria used by OIG for accepting a post-fraud referral include threshold amounts—the estimated over-issuance must be at least \$1,500—and the OIG workload.

If an OIG investigator discovers fraud in an amount above the threshold for felony prosecution, OIG refers the case to the appropriate county or district attorney. OIG may refer cases that are not prosecuted to an administrative disqualification hearing if the client has been documented as having committed fraud previously or to the DHS Recovery Unit for recovery of the overpayment.

Although a previous analysis of OIG by TPR recommended referral tracking, OIG does not keep statistics on the number of referrals received, accepted or rejected for either the fraud prevention program or the post-fraud program. OIG has an automated case management system but does not use it for the collection, entry or use of referral statistics.

Many states use telephone hotlines to help catch public assistance cheaters. California's welfare fraud hotline helped stop over \$17.8 million in fraudulent overpayments during the last five years.¹ The "California We-Tip" hotline is operated by a non-profit organization. It pays rewards of up to \$100 to citizens who report suspected welfare fraud in cases which are successfully prosecuted.

South Dakota started a welfare fraud hotline in July 1992 considered successful largely due to the extensive publicity. The state held press conferences, distributed posters and sent notices to those receiving public assistance checks. This program has allowed South Dakota to catch fraud that might not otherwise have been caught by routine computer matching. Other states with welfare fraud hotlines include Louisiana, Minnesota, Massachusetts, Kentucky and New Jersey.

New York has a computer matching program with neighboring states to check for concurrent enrollment in public assistance programs. The interstate data exchange identified over 4,200 welfare recipients who

have been receiving medical, housing, food and rent assistance from New York and at least one other state.²

The program also found abuse by those receiving general assistance, Medicaid, food stamps and AFDC.³ For example, a data exchange with New Jersey revealed that over 2 percent of New Jersey's 35,000 general assistance recipients received benefits from both New Jersey and New York. Of New York's 672,000 Medicaid beneficiaries, 437 received benefits from both states as did 400 of the state's 129,000 AFDC recipients.⁴

In Massachusetts, officials disclosed that nearly 700 inmates in state prisons and county jails were collecting welfare and had to be removed from the rolls. Another 770 inmates were referred to federal authorities when investigators found they may have been illegally receiving federal Supplemental Social Security or Medicaid payments.⁵

To verify eligibility, DHS regional offices in Austin, Beaumont and San Antonio have begun investigating ownership of automobiles by public assistance recipients in some cases. They use the Texas Department of Transportation database to assist their investigations.

Several other states also verify public assistance information through motor vehicle registration databases. The Texas database, however, can be searched only by vehicle identification or license plate numbers. When public assistance recipients claim they do not own automobiles, it is impossible for DHS to search for information by name of owner.

Recommendations

- A. The Texas Department of Human Services (DHS) should evaluate the costs and benefits of the self-imposed, five-day time limit allowed by its Office of the Inspector General (OIG) for the investigation of fraud prevention referrals.**

Federal and state regulations require caseworker processing of eligibility determinations to be completed within a specified time—30 to 45 days, depending upon the program—from the date of application. OIG established its self-imposed investigation deadline of five days so fraud prevention investigations would not delay public assistance application processing.

Because of the five-day limitation, OIG rejects or returns as many as 50 percent of the fraud prevention referrals received from DHS caseworkers. OIG investigators and supervisors have the authority to decide which cases to accept or reject based upon their judgment regarding the potential costs and benefits of a given case. Rejection of referrals, although intended to avoid delaying the application process, may allow erroneous or fraudulent cases to be approved for benefits.

- B. DHS should consider lowering the criteria for OIG acceptance of post-fraud referrals and require all DHS offices to apply the same threshold amount.**

- C. OIG should compile and disseminate accurate statistics on fraud prevention and post-fraud referrals received, accepted or rejected on its existing case management system.**

Because data regarding the number of referrals received, accepted or rejected is not compiled or reported, it is difficult to determine if referrals are increasing at a higher rate than the current OIG or prosecutorial staffs can handle. Some DHS regional offices have begun maintaining their own statistics on the number of referrals made and rejected.

- D. As a deterrent to public assistance fraud, DHS should publicize successful fraud prosecutions more aggressively.
- E. DHS should establish and promote a toll-free hotline for reporting public assistance fraud.
- F. DHS should establish an interstate data sharing agreement with its agency counterparts in Arkansas, Louisiana, New Mexico and Oklahoma to guard against recipients being enrolled in public assistance programs in both Texas and another state at the same time.

Shared data would consist of computer tapes containing basic information of welfare recipients name, Social Security number, address and age.

- G. DHS should establish a computerized matching system with the Texas Department of Criminal Justice (TDCJ) to prevent incarcerated individuals from illegally receiving public assistance benefits.

While this recommendation seeks to prevent inmates from illegally receiving benefits, another TPR recommendation in this report encourages appropriate TDCJ facilities to collect benefits for eligible inmates to help defray operating costs.

- H. The Legislature should require the Texas Department of Transportation (TxDOT) to provide a dedicated line into its motor vehicle database for use by other state agencies.

DHS would use the database to verify automobile information used as a criteria for eligibility for Aid to Families with Dependent Children and food stamps.

Implications

While amending the OIG five-day time limit for processing fraud prevention referrals could reduce the amount of state funds lost through public assistance fraud, it could increase the need for additional OIG investigators.

Modifying the current dollar threshold for OIG acceptance of post-fraud referrals would allow the investigation of a greater number of referrals, but it could create a heavier workload for OIG investigators. Publicizing successful fraud prosecutions and establishing a public assistance fraud hotline would also increase the number of post-fraud referrals.

Allowing dedicated access to the TxDOT database would decrease fraud investigators' response time, allowing them to perform their jobs more efficiently. TxDOT would have to amend its motor vehicle registration reporting requirements to include the Social Security numbers of vehicle owners.

Fiscal Impact

While the recommendations to reduce public assistance fraud should save money, the total fiscal impact of this issue cannot be determined. Based on savings in other states, Texas could recover from \$1 million to \$10 million through the efforts described above, which should be sufficient to offset possible additional costs.

One of the main costs incurred in implementing these recommendations would come from the hiring of new state employees; DHS would need additional fraud investigators to handle a workload that presumably would increase.

A fraud hotline would cost about \$50,000 per year, including the long distance charges for toll-free hotline calls, one investigator to answer calls and a voice response unit. DHS would need to advertise the hotline through such means as mail inserts, posters and free press efforts.

According to TxDOT, reprogramming the motor vehicle database to allow searches by name would range from \$50,000 to \$250,000. DHS offices would need a computer terminal to provide access to the database, but each region could pool its data searches through a central site.

Endnotes

- 1 Los Angeles County Board of Supervisors - Fifth District, March 31, 1993, p. 1. (Press Release.)
- 2 Interview with Bob Tangeler, Audit Division, New York State Department of Social Services, Albany, New York, September 20, 1994.
- 3 Bruce Mohl and Doris Sue Wong, "NY Finds 548 Listed on Mass. Welfare; Computer Crackdown Sets Off Wider Probe," *Boston Globe*, August 3, 1994, p. 17.
- 4 "NY Finds 548 Listed on Mass. Welfare"
- 5 Don Aucoin, "Inmates are Found on Welfare," *Boston Globe*, September 24, 1994.

Establish a Public Assistance Fraud Oversight Task Force

The Legislature should establish a Public Assistance Fraud Oversight Task Force consisting of representatives from the Texas Department of Human Services, the Comptroller's office, the State Auditor's Office, the Department of Public Safety and the Office of the Attorney General.

Background

The Texas Department of Human Services' (DHS) Office of the Inspector General (OIG) has a fiscal 1995 budget of \$8.1 million and a staff of 230. OIG contains four departments: investigation, audit, support and Medicaid audit.¹

Despite its best efforts, OIG cannot keep up with the large number of food stamp and Aid to Families with Dependent Children related fraud cases it is called upon to investigate.² As discussed elsewhere in this report, OIG does not track fraud referrals received, accepted or rejected. TPR's February 1993 review of OIG recommended that OIG track fraud referrals, but this recommendation has not been implemented. Numerous fraud referrals are never acted on, and since they are not tracked, it is impossible to determine how many fraudulent cases are never investigated. OIG conducted less than 11,000 post-fraud investigations in fiscal 1993, while more than two million Texans were receiving benefits through DHS. Up to 50 percent of all cases of potential fraud uncovered by DHS caseworkers are rejected by OIG because its investigators cannot complete the investigation within an OIG-imposed deadline of five workdays.

TPR also found a need for improved communications between OIG headquarters in Austin and its field offices. About 64 percent of OIG employees surveyed during the review stated that communications within OIG were no better than fair.³ Many caseworkers do not receive any communication from OIG concerning fraud referrals, which causes a high level of frustration among some DHS caseworkers.

Recommendations

- A. The Legislature should establish a Public Assistance Fraud Oversight Task Force with representatives of the Texas Department of Human Services (DHS), the Comptroller's office, the State Auditor's Office, the Department of Public Safety and the Office of the Attorney General.

The task force would allow DHS to draw upon the expertise of other state agencies to help improve the efficiency of fraud investigations and collections. The Comptroller investigates state tax fraud with a high success rate for prosecutions. The Office of the Attorney General is active in investigations for Medicaid provider fraud, consumer protection and child support enforcement. The Department of Public Safety is the law enforcement agency for the state. The State Auditor's Office has a section that investigates state agency and general revenue related fraud.

The task force should meet at least once each quarter. These meetings would provide a forum for experienced state agencies to share their knowledge of operations and offer guidance to DHS.

- B. The Legislature should require DHS' Office of the Inspector General (OIG) section to report to the task force the following information on a quarterly basis:

- the number of fraud referrals by origin (caseworkers, quality control, the public);
- time spent investigating each case;

- the number of cases investigated each month, by program and region;
- the dollar value of each fraudulent case resulting in a conviction;
- the number of cases rejected by OIG and the reason for rejection, by region; and
- any additional reports the task force may require.

Implications

The creation of a Public Assistance Fraud Oversight Task Force should help provide direction to OIG employees and allow them to operate more efficiently. DHS would have to produce additional reports required by the task force.

Fiscal Impact

Savings should result from improved efficiency, but cannot be estimated. If the task force helped reduce the AFDC rolls by only 1 percent, it could save a total of \$42.5 million in food stamp and AFDC benefits for one year. Of this amount approximately \$6.3 million would be state dollars. It could also help prevent the federal fiscal sanctions for high error rates in Texas AFDC and food stamp programs, as discussed elsewhere in this report.

Endnotes

- ¹ Texas Comptroller of Public Accounts, Texas Performance Review. *DHS Office of the Inspector General* (Austin, Texas, February 3, 1993), p. 2.
- ² *DHS Office of the Inspector General*, p. 15.
- ³ *DHS Office of the Inspector General*, p. 28.

Reduce Payment Error Rates for Food Stamps and Aid to Families with Dependent Children

The Texas Department of Human Services should modify its current procedure to reduce error rates within the food stamp and Aid to Families with Dependent Children programs.

Background

Texas has a high rate of payment errors in both the food stamp and Aid to Families with Dependent Children (AFDC) programs. Such errors can be caused either by Texas Department of Human Services (DHS) caseworkers or by the welfare recipients themselves, and range from simple arithmetical mistakes and incomplete or inaccurate reporting of income to actual recipient fraud.¹

Each state human services agency has a quality control function, in which staff members contact a sample of recipients to verify that payments are correctly calculated. In the case of underpayments identified through the sample, the state makes an additional payment to the client; most errors, however, involve overpayments or payments to ineligible recipients. After the state estimates its error rate, the federal government reviews the sample used to calculate the error-rate estimate.

For federal fiscal 1992 (most recent data available), DHS calculated from sample cases that AFDC errors resulted in an average loss of \$135.23 per erroneous case. For federal fiscal 1993, Texas' average loss per error in a food stamp case was \$72.91. (AFDC payments include 36 percent in state matching funds; food stamp benefits are 100 percent federally funded.)

The federal government may impose fiscal sanctions on states when error rates are too high. Texas currently is under such sanctions. Texas has a long history of high error rates (Exhibit 1).

Exhibit 1: AFDC and Food Stamp Error Rates

Fiscal Year	AFDC Error Rates		Food Stamp Error Rates	
	U.S. Average	Texas	U.S. Average	Texas
1985	6.1%	4.3%	10.5%	12.4%
1986	7.1	7.5	10.4	12.0
1987	6.3	6.8	10.3	10.0
1988	6.8	6.7	9.9	10.3
1989	5.7	7.9	9.8	9.2
1990	6.0	7.7	9.8	10.5
1991	5.0	8.0	9.3	10.4
1992	5.2	8.3*	10.7	11.8
1993	5.5	9.5*	10.8	11.4

*Preliminary

Sources: U.S. Department of Health and Human Services, U.S. Department of Agriculture and Texas Department of Human Services.

Sanctions may be applied in the food stamp program when the state's error rate exceeds the national average plus 1 percent. Based on 1991 findings in Texas' food stamp program, the state's sanction for 1986 to 1991 totaled \$7 million. This was reduced through negotiation to about \$1 million, which was earmarked for the state's error-reduction efforts. This \$1 million came entirely from general revenue.

The error-rate threshold for imposing AFDC sanctions is 4 percent. Texas received a \$5.4 million sanction for fiscal 1991. (The amount of erroneous AFDC expenditures in federal and state dollars in Texas for fiscal 1991 totaled \$37.9 million.) Negotiations to reduce the sanctions are ongoing.

Current data show a continuing pattern of potential quality control liability. DHS anticipates combined AFDC and food stamp sanctions of \$6.7 million in fiscal 1995, \$14.6 million in fiscal 1996 and \$20.7 million in fiscal 1997.²

However, the reasons for Texas' high error rates have not been clearly defined. Texas quality control findings attribute most errors to "client fraud." DHS's AFDC Corrective Action Plan of April 30, 1994 estimates "client fraud" for the first six months of fiscal 1993, as accounting for nearly 59 percent of all money paid in error; only 25 percent is listed as agency error.

In fiscal 1991, the federal Department of Health and Human Services summary of state AFDC quality control results showed Texas attributing 70 percent of all dollars paid in error to client-caused errors (including fraud, which is not counted separately) and 30 percent to those caused by the agency. This was sharply different from the national average, which in that year was 42 percent client-caused and 57 percent agency-caused. Texas led the nation in allegedly client-caused errors, and only three other states were within 10 points of Texas' numbers. In fiscal 1992, the federal Department of Agriculture summary of state food stamp results showed Texas with a total of 61 percent of all errors as client-caused and 39 percent agency-caused. Again, this was in marked contrast to the national average, which was 41 percent client-caused and 59 percent agency-caused.

DHS's current data indicate the agency's error-reduction efforts should be focused on the Houston region, which has a large share of the state's caseload and a significantly higher payment error rate than the rest of the state. In fiscal 1993, AFDC error rates for the Houston region were 17.9 percent, compared to a state average of 9.5 percent; the Houston error rate for food stamps was 13.2 percent compared to 11.4 percent for the state.

Because the Houston region's caseload is so large and its error rate so high, the state must target this region to succeed in reducing statewide error rates. Yet based on information obtained from DHS staff members, efforts to reduce Houston's error rates thus far have been unsuccessful. One recent effort, DHS' Project Recall, used follow-up telephone contacts with recipients to verify household composition, residency and income within 60 to 90 days after certification of benefits. However, DHS failed to act on the error information gathered through these telephone contacts.

Moreover, it should be noted that federal statistics show that states with large urban areas do not always have high error rates. For the AFDC program in fiscal 1991, California, Colorado, Georgia, Massachusetts, Michigan, Minnesota, New Jersey and Pennsylvania all were *below* the national average in error rates. For food stamps in fiscal 1992, Georgia, Illinois, Maryland, Massachusetts, Michigan, Missouri, New Jersey and Pennsylvania all were below the national average.

TPR believes that some specific Texas policies may contribute to high error rates. DHS's Office of the Inspector General has set a self-imposed five-day processing time limit for fraud prevention investigations, which results in the rejection of a significant number of cases in need of investigation.

Recommendations

- A. The Legislature should require that the Texas Department of Human Services (DHS) set progressive goals for improving error rates, with a specific schedule for meeting those goals. DHS should report to the Governor's Office and the Legislative Budget Office each quarter, beginning September 1, 1995, on the progress made towards meeting these goals.**

DHS should include an analysis by region of goals and performance concerning error-rate reduction. DHS employee performance evaluations should continue to include a rating system that emphasizes error rate reduction and workload. DHS should take action to remove management and other staff in areas where error rate reduction is not achieved in a reasonable time.

DHS also should report quarterly to the Public Assistance Fraud Oversight Task Force recommended elsewhere in this report on its progress in implementing these recommendations.

- B. The Legislature should allow DHS the administrative discretion to reasonably modify its existing one-day service delivery requirement for expedited food stamp cases to achieve state error rates at or below the national average.**

Although TPR encourages better customer service, DHS should have the discretion to address all aspects of error-rate and fraud corrective actions so that taxpayers are not forced to pay for the "gaming" of the public assistance system.

- C. DHS should ensure that the term "client fraud" is appropriately applied. DHS should take immediate actions to limit client fraud if its use of the term is determined to be appropriate.**

The Legislature should take a no-nonsense approach to DHS' accountability for error rate. DHS' attribution of "client fraud" is so anomalously high compared to the rest of the nation that it casts doubt on the picture emerging from DHS statistics. This may divert policymakers from determining true accountability for error rates and designing appropriate corrective actions. DHS' operation of these programs should be to the highest standard so that Texas taxpayers have confidence that accurate benefits are paid to those eligible for services.

- D. DHS should establish a concentrated and effective error-reduction action plan for the Houston region.**

Without immediate and effective actions, the Houston region will continue to push statewide error rates above the acceptable federal level.

Implications

These recommendations would strengthen DHS's error reduction efforts, remove the threat of fiscal sanctions and reduce erroneous benefit payments.

Fiscal Impact

DHS's legislative appropriation request (LAR) projects Aid to Families with Dependent Children (AFDC) error rates and benefits. Assuming state/federal cost sharing remains constant for the upcoming years, the dollar loss in AFDC overpayments is projected to be \$15.6 million for fiscal year 1994 and approximately \$17 million for each fiscal year from 1995 to 1997.

The Texas AFDC payment-error rate for fiscal 1993 is 9.5 percent, equaling an estimated overpayment loss of \$18 million. For every percentage-point reduction in the error rate, the state could save \$1.8 million. If the state lowered the error rate to the national average, the savings would equal about \$9 million annually.

Sanctions imposed by the federal government are another significant factor. DHS's LAR estimates the sanctions for the coming fiscal years at about \$10 million per year for AFDC and \$7 million for the food

stamp program. Negotiations with the federal government usually result in lower sanction amounts, but any money the state pays the federal government due to error is unnecessary.

The fiscal impact of continuing high error rates underscores the urgency to reduce payment error and keep error rates down. The state has incurred financial losses as a result of high error rates and continues to be at risk for future losses.

Endnotes

- ¹ U.S. House of Representatives, Committee on Ways and Means, *1994 Green Book* (Washington, D.C., July 15, 1994) p. 420.
- ² Texas Department of Human Services, *FY 1995 Operating Plan and FY 1996-1997 Appropriations Request* (Austin, Texas, July 21, 1994), pp. 53-54.

Use Automated Fingerprint Imaging to Prevent Duplication of Benefits

The Texas Department of Human Services should use automated fingerprint image matching technology to prevent public assistance recipients from receiving duplicate benefits.

Background

Several states are implementing electronic fingerprint imaging in an effort to curtail public assistance fraud. This computerized technology matches the fingerprint images of new applicants against an established client data base to detect applications for duplicate aid.

Each applicant places both index fingers on an optical scanner that "reads" the print and transmits it to a central data base, where the computer retrieves any prints that appear to match. The scan/match is completed in five minutes for emergency applications (homeless or immediate need). To keep costs down, non-emergency applications are cleared within 24 hours.

If the computer identifies a potential match, a trained fingerprint expert evaluates the prints. If there is a match, the client is asked to explain. Benefits may be discontinued, and the client may be referred for prosecution.

To guarantee that all fingerprint matches have been identified in the event of incorrect demographic data (since the file is separated by male and female), the system can conduct a weekly open search that matches each new fingerprint image to every image in the file.

In 1990, Los Angeles County contracted with EDS Corporation to supply all software, hardware, training and ongoing operation and maintenance for the nation's first automated fingerprint system outside of law enforcement. The county developed this system to replace the messy, time-consuming process of ink fingerprinting and photographing public assistance recipients.

L.A.'s Automated Fingerprint Image Reporting and Match System (AFIRM) cost the county \$13 million. Savings attributed solely to AFIRM through the end of July 1994 totaled almost \$14 million. Of this amount, \$5.4 million came in the first six months of system operation as a result of terminating 3,021 approved cases and denying 242 cases for failure to comply with

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AFIRM requirements. The county expects to save close to \$18 million throughout the initial five-year contract.¹

Because the system proved cost-effective, L.A. sought and received state and federal funding to expand AFIRM to include the county's 300,000 AFDC cases. The cost of the AFDC expansion was \$20 million in county, state, and federal funds. AFDC AFIRM savings over the 30-month demonstration period are projected at \$51 million.²

Following L.A. County's success, Alameda, Contra Costa, San Francisco and Orange counties have implemented AFIRM to fingerprint their general assistance populations.

New York has recently expanded its electronic fingerprint imaging to add 12 more districts to the statewide program. The programs are administered locally and apply only to general assistance cases. The state has appropriated about \$2 million for the 12 districts.³

While the state has not projected cost savings, New York City Mayor Rudolph Giuliani predicts that electronic fingerprint imaging will save the city \$58 million in the fiscal year that begins in July 1995. New York City is home to two-thirds of the state's welfare recipients. Ilene Marcus, executive director of the city's Human Resources Administration, estimates that fingerprint imaging will cut the city's general assistance rolls—currently about 293,000 people—by up to 10 percent.⁴

The Texas Department of Public Safety's (DPS) Criminal Investigation has converted more than 3 million of its master fingerprint cards on file to an automated system that will begin fingerprint imaging each driver's license applicant in January 1995.⁵ Private-sector companies also are considering fingerprint imaging for credit cards. This technology is no longer associated exclusively with the criminal justice system and, in the future, will not be stigmatized as a criminal justice tool.

U.S. Senator Kay Bailey Hutchison introduced a bill in May 1994, to require states to establish a two-digit fingerprint matching identification system to scan the fingerprints of each AFDC applicant to prevent multiple enrollments. The bill was referred to the Senate Committee on Finance for further evaluation.⁶

Recommendations

- A. The Department of Human Services (DHS) should use automated fingerprint image matching technology to prevent recipients from receiving duplicate benefits.**

DHS should seek a waiver for a 36-month pilot project in Harris County to evaluate the cost-effectiveness and possible statewide application of the automated fingerprint imaging system. The pilot project would allow estimation of the number of case reductions and dollar savings attributable to fingerprint imaging to determine the feasibility of a statewide system. It would also test procedures to ensure the effectiveness and appropriate use of the system. DHS should work with the Department of Public Safety (DPS) to identify the most cost-effective approach to using DPS computer and finger imaging expertise in this pilot.

Implications

Opponents of fingerprint imaging contend that the technique will stigmatize welfare recipients. Los Angeles County's Department of Public Social Services (DPSS), however, reports that AFIRM has been well received by the public and staff alike. DPSS maintains that clients appreciate that the system will deter fraud and result in the issuance of benefits only to eligible clients.⁷

Opponents also express concern that the fingerprint images may become available to law enforcement agencies, thus scaring away qualified applicants. Fingerprint images obtained and stored on the Texas system could be confidential records to be used solely by DHS to administer the program.

Rather than design its own system, DHS could further reduce costs by setting up a system that "piggybacks" off the DPS system. Also, the pilot should explore the possibility of including food stamp recipients. This could lower the state's error rate, thereby reducing the penalties now paid by DHS.

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Fiscal Impact

Hardware and software costs for a pilot system in Houston could range from \$1.7 million to \$9 million. Assuming that Texas receives 50 percent federal funding for system administration, the state's cost would be between \$0.9 million and \$4.5 million.

This recommendation also would require an estimated 10 fingerprint technicians to administer the system and verify matches.

The estimate below assumes the lower estimate of system costs. Piggybacking on the DPS system would further reduce the estimated costs. The estimate also assumes that the federal government will pay half of the administrative cost, as in a current pilot in California.

<u>Fiscal Year</u>	<u>Savings to GR</u>	<u>Cost to GR</u>	<u>Net Savings to GR</u>
1996	\$1,500,000	\$1,500,000	\$0
1997	\$3,146,000	\$267,850	\$2,878,150
1998	\$3,146,000	\$267,850	\$2,878,150
1999	\$3,146,000	\$267,850	\$2,878,150
2000	\$3,146,000	\$267,850	\$2,878,150

¹ Los Angeles County Department of Public Social Services, *Fingerprints For Better Service* (Los Angeles, California, September 19, 1994), p. 6.

² *Fingerprints For Better Service*, p. 6.

³ Interview with Bob Tangeler, Audit Division, New York State Department of Social Services, Albany, New York, September 20, 1994.

⁴ Kevin Sack, "Fingerprinting Allowed in Welfare Fraud Fight," *New York Times* (July 9, 1994).

⁵ Texas Department of Public Safety, *Texas State AFIS Summary* (Austin, Texas, January 12, 1994).

⁶ U.S. Congress, Senate, *Amendments to the Social Security Act, 1994*, S.2085.

⁷ *Fingerprints for Better Service*, p. 6.

Appendix A

Modeling AFDC Caseload Growth

To assess the influence of demographic, economic and institutional factors on the rapid increase in the number of recipients of Aid to Families with Dependent Children (AFDC) in Texas, the Comptroller's office has estimated a regression model of the state's AFDC caseload from 1983 through 1993. The following equation, based on the U.S. Congressional Budget Office model, explains 99 percent of the quarterly growth in Texas' AFDC caseloads.

$$\text{TXCASES} = 105,081 + 0.22 * \text{TXFFSD} + 0.48 * \text{TXFFNM} + 550.8 * \text{AFDCBEN} \\ - 447.4 * \text{WRETAIL} + 0.017 * \text{EMPGAP} + 12,235 * \text{JOBS}$$

where TXCASES is the number of AFDC-Basic cases; TXFFSD and TXFFNM are the number of separated/divorced and never-married female-headed households with children under 18; AFDCBEN is the combined (inflation-adjusted) cash value of monthly AFDC, food stamp and Medicaid benefits for the typical three-person AFDC family; WRETAIL is the average (inflation-adjusted) wage rate in retailing; EMPGAP is the gap between "full" and actual nonagricultural employment; and JOBS is a "dummy" variable for the implementation of the Job Opportunities and Basic Skills (JOBS) program in the fourth quarter of 1990.

All five variables in the equation are highly significant. The first two measure the pool of potential AFDC households. The estimated coefficients indicate that an increase of 1,000 female-headed families with children under 18 adds 220 recipients to Texas' AFDC rolls for separated or divorced mothers and 480 recipients to the rolls for never-married mothers. These results are generally consistent with U.S. Census figures on AFDC reciprocity by family type.

The next two variables measure the financial advantage of using AFDC benefits versus working. The coefficient associated with AFDC benefits indicates that a \$1 increase in the cash value of benefits (in 1993 dollars) increases Texas' caseload by about 550 recipients. Similarly, a

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\$1 increase in real wages in the state's retail sector decreases the AFDC caseload by about 450 recipients.¹

The next variable measures the overall availability of jobs in Texas' economy. The coefficient associated with this variable indicates that an increase of 1,000 in the gap between the number of jobs available if the state economy were at "full employment" and the actual number of nonagricultural jobs increases the AFDC caseload by 17 recipients.²

Finally, the coefficient associated with the JOBS variable indicates that the availability of the JOBS program in October 1990 permanently added about 12,200 families to Texas' AFDC caseload. Several other variables measuring institutional changes in the AFDC program were also tried in the estimated equation, but the JOBS variable proved the only significant variable.

¹To smooth out short-term fluctuations in the data and allow time for potential AFDC recipients to respond to financial incentives and job opportunities, the BENEFITS, WRETAIL, and EMPGAP variables are expressed as four-quarter moving averages in the estimated equation.

²Full employment is defined as the number of jobs available if the economy is at its highest potential without accelerating inflation. It is estimated based on a regression equation relating actual nonagricultural employment to the working-age population, the unemployment rate and a time trend, assuming that full employment occurs when Texas' unemployment rate falls to 5.5 percent. See Wharton Economic Forecasting Associates, xxx.

Appendix B

The Importance of Housing for Welfare Reform

Although state and national welfare reform efforts have largely ignored the issue of safe and affordable housing, this issue is critical. If families do not have access to adequate housing, no amount of "reform" will lead them to self-sufficiency. Indeed, unaffordable, crime-infested and structurally unsafe housing creates major barriers to self-sufficiency. Texas must address the adequacy of its housing if our welfare reform efforts are to succeed.

The need for safe, affordable housing is apparent both nationally and in Texas. Increased housing costs, dwindling family incomes, shortages of housing—especially of public housing units—and decreased federal dollars have all contributed to a housing crisis.

U.S. and Texas household incomes generally have not kept pace with housing costs. From 1970 to 1990, U.S. median household incomes rose from \$8,730 to \$30,130 (current dollars). During the same period, however, the U.S. median sales price of new homes increased from \$23,000 to \$120,000.¹ A similar phenomenon occurred in Texas during this time.

Cost burden—the percentage of gross income that a family uses to pay for housing-related costs—is a common barometer of housing affordability. When a family's cost burden is 30 percent or more, its housing is considered unaffordable. In 1990, 26 percent of Texas' 5.3 million renters and owners bore this high cost burden.²

The demand for affordable housing is outpacing availability. Texas carried a backlog of unmet affordable housing needs from the 1980s into the 1990s.³ A major factor contributing to this backlog is Texas' large number of low-income households, including those receiving public assistance, who are not able to meet the rising costs of housing, especially rental housing.

In 1990, Texas' median family income (MFI) was \$27,016, \$8,923 below the U.S. MFI.⁴ Twenty-five percent of Texas households were classified as very low-income (up to 50 percent of MFI); 17 percent were low-income (51 percent to 80 percent of MFI) and 8 percent were moderate-income (81 percent to 95 percent of MFI). In addition, about 1 million households—40

percent of owner-occupied and 60 percent of renter-occupied households—were below the federal poverty level. Of the households below the poverty level, 19 percent of owner-occupied households and 26 percent of renter-occupied households received public assistance.

If left unchecked, Texas' affordable housing problem could escalate into a full-blown crisis, with more and more families forced out into the streets or forced to remain on, or apply for, public assistance.

Traditionally, the federal government has generated most housing assistance programs and initiatives. However, with a decrease in federal funds and an increase in persons who need assistance, state and local entities are taking a larger role in providing affordable and safe housing.

A major barrier for families seeking to achieve self-sufficiency is fragmentation of services—particularly federally supported services such as housing assistance, job training and child care assistance. Unencumbered access to these services is crucial if low-income families are to achieve economic independence.

Operation Safe Home

On February 4, 1994, Operation Safe Home was proposed as a new initiative of the U.S. Department of Housing and Urban Development (HUD), the U.S. Attorney General, the U.S. Treasury and the Office of National Drug Control Policy.⁵ This initiative attempts to rid public housing developments of violent, drug-related crime. Several cities, including Houston and Dallas, were listed as potential demonstration sites because many of their public housing developments were identified as high-crime areas.

Governor Richards and the Texas Department of Housing and Community Affairs (TDHCA) are working with the above federal agencies, other state and local agencies and public housing residents to support including Houston and Dallas in this initiative. Realizing that Texas' high poverty rate has depleted the state's resources to assist this population, the governor is

working to coordinate the resources of all levels of government. The goal is to lower the rate of violent crime in public housing developments in these cities to national levels.⁶

Some of Texas' most vulnerable citizens live in public housing where some of the highest crime rates in the state occur. Not only does this threaten the physical safety of the residents, it also creates a barrier to independence. Texas should make every effort to obtain federal designation and assistance for Houston and Dallas under this initiative.

Target Independence

Proponents of public assistance reform in Texas often contend that the current spectrum of social services fosters continuous dependence on the system rather than self-sufficiency. This thinking often applies to the area of housing and its assistance programs. A very limited number of housing programs in Texas address not only the issue of affordable housing but also access to critical support services such as education and employment training, parenting classes, child care and transportation.

TDHCA currently has a program in progress to address this problem. Target Independence seeks to facilitate the economic independence of low-income families by guiding them from public assistance to homeownership through a number of support services. TDHCA is temporarily buying foreclosed multifamily properties from HUD at deeply discounted prices with a rental subsidy attached. These properties will be transferred to nonprofit housing organizations in targeted local areas.⁷

Target Independence properties will be "upscale," mixed-base developments—that is, not all apartment residents will be public assistance recipients—with amenities such as central air and heat, wall-to-wall carpeting, ceiling fans, tennis courts and swimming pools.⁸ Public housing residents may move out of their present units to these newer units if they are employed, pay their rent on time, remain crime- and drug-free, keep children in school and successfully complete training courses. Social services provided to program participants (at a fee to non-Section 8 residents) will include child care, transportation and General Educational Development classes.

Unemployed Section 8 residents may work voluntarily in the daycare center and provide maintenance for the complex.⁹

Because non-profit organizations will manage the properties, the profits that private landlords normally make from Section 8 rental payments will be directed towards extensive service provisions, property maintenance and revolving loan funds that will help low-income families afford the down payment and closing costs on a mortgage. Qualified participants may apply for these loans after they have successfully completed the program.

This approach has been successfully applied elsewhere in the nation including Denver (Warren Village) and Pinellas County, Florida (Pinellas Village). Texas should fully support TDHCA's effort.

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- ¹U.S. Bureau of the Census, *Statistical Abstract of the United States* (Washington, D.C., 1993), pp. 456 and 720.
- ²Texas Department of Housing and Community Affairs, *State of Texas 1994 Comprehensive Housing Affordability Strategy, Five Year Plan* (Austin, Texas, February 1994), p. 40.
- ³*Comprehensive Housing Affordability Strategy*, p. 41.
- ⁴U.S. Bureau of the Census, *1990 Census of Housing, General Housing Characteristics* (Washington, D.C., year), series CH-1.
- ⁵Memorandum from Elaina Peinado, Texas Department of Housing and Community Affairs, to Twanna Buford, Texas Comptroller of Public Accounts, September 15, 1994.
- ⁶Memorandum from Elaina Peinado to Twanna Buford, September 15, 1994.
- ⁷Texas Department of Housing and Community Affairs, "Silver Lining: Eighties Property Bust Provides Texas with Affordable Housing Boom," *Changing Lives*, Summer/Fall 1994, p. 5.
- ⁸Memorandum from Elaina Peinado to Twanna Buford, September 15, 1994.
- ⁹"Silver Lining," p. 5.

Appendix C
Welfare Facts and Figures

Events that lead to a family qualifying for AFDC assistance in the U.S.:

Divorce/Separation	45%
Unmarried woman has her first child	30%
Earnings of mother fell	12%
Changes in the family income	4%
Other	9%

SOURCE: U.S. House of Representatives.

Percentage of Texas AFDC Recipients by Period of Benefits, Fiscal 1993

Months on AFDC (Basic)	Percent
1-12	32.5%
13-24	16.3
25-36	10.9
37-48	8.2
49-60	6.7
61-72	5.1
73+	20.3

Number of Children in Texas AFDC Families, Fiscal 1993

Number of Children	Percent of Cases
1	43.7%
2	29.6
3	16.3
4	6.5
5	3.7

Average Monthly Texas Food Stamp Caseload

Year	Value (mil \$)	Families (000)
1989	\$1,069	551
1990	1,386	645
1991	1,715	770
1992	2,075	903
1993	2,231	994

Average Monthly Texas AFDC (Basic & UP) Payments and Recipients

Year	Payments (mil \$)	Recipients (000)
1989	\$366	536
1990	412	603
1991	470	688
1992	516	753
1993	534	779

SOURCE: Texas Department of Human Services.