

THE WELFARE TO WORK PARTNERSHIP

FACSIMILE TRANSMITTAL SHEET

TO:	FROM:
Bruce Reed	Eli Segal
COMPANY:	DATE:
The White House	November 20, 1997
FAX NUMBER:	TOTAL NO. OF PAGES INCLUDING COVER:
(202) 456-2878	3
PHONE NUMBER:	SENDER'S EXTENSION NUMBER:
(202) 456-6262	303
RE:	
See Attached	

URGENT FOR REVIEW PLEASE COMMENT PLEASE REPLY PLEASE RECYCLE

NOTES/COMMENTS:

Bruce:

Thanks so much for yesterday. I think it went quite well.

I enclose a copy of the memo I sent to the President last week. I haven't received a reaction from him. When time permits, please give me yours.

Sincerely,

Eli Segal

1250 CONNECTICUT AVENUE, NW
SUITE 610
WASHINGTON, DC 20036
PHONE (202) 955-3005 • FAX (202) 637-9195

WR - WTW

The Welfare to Work Partnership
1250 Connecticut Avenue, NW • Sixth Floor
Washington, DC 20036
Phone 202-955-3005 • Fax 202-637-9195

TO: The President
FROM: Eli Ségal *ES*
DATE: November 14, 1997
SUBJECT: Progress of The Welfare to Work Partnership

1. I look forward to seeing you in Wichita on Monday, November 17. Cessna CEO Russ Meyer, a prominent Republican and Dole supporter, has an extraordinary welfare-to-work program which we'll be highlighting. Among other things, Cessna is our best response to those who accuse the business community of "creaming" only the most eligible welfare recipients.
2. The Welfare to Work Partnership now boasts almost 2500 business partners representing over 5,000,000 employees. We'll top 3000 partners by the end of the year, with 5000 an achievable but not yet stated near term goal. Partners come from all regions and all industrial sectors (including several high tech companies). While 75% of partners are small businesses, 24 are Fortune 100 companies. Every single state in the country has at least one partner. You'll remember that your specific challenge to the business community was 1000 companies by the end of the year.
3. Over the next few months, we will take several important steps to drive our program and message. First, we'll announce significant partnerships with major organizations including the U.S. Chamber of Commerce and Goodwill Industries. While Tom Donahue (Chamber) and Fred Grandy (Goodwill) aren't usually our allies, on welfare reform they are; so are the 10 Republican (and 10 Democratic) Governors who have joined our Advisory Task Force, chaired by Tommy Thomson and Tom Carper. Second, we'll unveil a national public service announcement campaign going directly at the stereotypes associated with those on public assistance. Third, we will substantially expand our city by city approach connecting businesses and intermediaries. Fourth, we will create evocative ceremonies to honor companies for extraordinary achievements in moving people from welfare to work. This group of activities, along with the new law and a strong economy, should continue the positive movement since you signed the Welfare Reform Act in August 1996.

4. I wanted to share with you the major surprises to me after six months of this project:
- (a) it has been easier than I expected to line up the companies; the likely explanations are a strong economy, coupled with our message that hiring welfare recipients "is a smart solution for business";
 - (b) there is mounting evidence from companies from all sectors and sizes that a well thought through company program leads to higher retention rates for former welfare recipients than other entry level employees: the key is "well thought through," of course;
 - (c) companies have minimal confidence in potential employees trained with government funds, e.g., JTPA dollars; they much prefer private sector non-profits, for-profits and temporary staffing companies to fill their needs; this means they're not particularly engaged in the discussion about the \$3 billion pot which will soon be distributed by the Department of Labor;
 - (d) on the other hand, there is substantially more interest in tax credits than when we started six months ago; most of this is related to breaking down skepticism about filling out government forms, etc.
5. This has been quite an undertaking. The skeptics are still out there. While there is much less talk about "one million homeless people," we are challenged regularly on the following issues: "creaming"; industries which "churn" rather than retain entry level employees; tracking exactly how many welfare recipients are being hired; "what happens when the economy softens"; subminimum wage and federal labor standards. Overall, however, I think we're turning the corner - enough so that I'm getting a little anxious about the overused technique of trotting out success stories. I am optimistic that we'll be able to develop new ways to measure success in the months ahead and help build the case that the discredited welfare system is on its last legs.

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September 26, 1997

WR - WTW
Program

To: Bruce Reed
From: Cynthia Rice
cc: Elena Kagan, Diana Fortuna
Subj: Today's Meeting with Mayor Archer

Yesterday, the U.S. Conference of Mayors provided us with a more detailed description of their concerns (see attached memo).

This morning, I chaired an 8:00 am WH-DOL-HHS conference call to discuss how to respond to Mayor Archer at this afternoon's meeting. The plan is for you and Secretary Herman and Kevin Thurm (if he attends) to assure them that we are on their side -- as we were throughout the budget fight. Ray Uhalde will be there to provide some more specific feedback on their comments along these lines:

- The vast majority of funds (85% of formula and 100% of competitive) are targeted at PICs and local governments.
- The statute provides the private industry councils with "sole authority, in coordination with the chief elected official [the mayor]....to expend the amounts described..."
- We can clearly revise the language of our guidance to better stress the role of the PICs and the importance of local flexibility.
- But because Republicans insisted that these funds be part of TANF, the formula funds flow through the states. States must submit a state plan developed in consultation and coordination with local officials which contains "assurances" by the governor that it will "coordinate" these expenditures with expenditures under TANF. Governors can rescind funds from PICs who do not do so.
- Our draft guidance does not define what it means for the state to assure coordination of expenditures, but the regulations will.
- We believe, however, that this authority to assure coordination with TANF does not give the governor the authority to tell PICs on which activities or populations to spend the funds. PICs have the freedom to choose from among the eligible activities and individuals in the statute.**
- The statute does appear to give states the authority to set other state-wide policies, monitor the expenditure of funds, and enforce the 15% cap on administrative expenses, which the mayors oppose.

** This is preliminary, pending review by DOL lawyers.

September 25, 1997

To: Bruce Reed
From: Cynthia Rice
cc: Elena Kagan, Diana Fortuna
Subj: Draft Welfare to Work Guidance: Issues Raised by U.S. Conference of Mayors

As you know, the U.S. Conference of Mayors released a press release on Monday protesting "in the strongest possible terms" the "state bias" in the Administration's welfare to work draft interim guidance. Today, they provided us with the more detailed comments. (Both are attached, along with the letter they sent Secretary Herman.) As described below, many of their proposed changes are simply semantics; however, others reveal differences in understanding of the statute. One -- regarding what percentage of the match can be comprised of in-kind contributions (they want a half instead of a third) -- is a straight-forward policy disagreement.

Issues of Semantics

Most of their suggested changes are changes not of substance, but of semantics. For example, when page one of the introduction gives a short description of the two kinds of grants, they want to replace "formula grants to states" with "formula pass-through grants to states, with 85 percent to be passed through to PICs." In many places they added "and PICs" where the guidance now only says "states." This linguistic "state bias" was due to the fact that it is the states under the statute who file plans and receive funds from the Dept. of Labor and the purpose of the guidance is to tell states what they have to include in those plans. However, we can obviously make these changes.

Issues of Statutory Interpretation

The mayors raise a more serious issue over what is the state role in setting overall policy and in providing oversight to the PICs. This firestorm was fueled by a letter Governor Tom Ridge sent to Mayor Rendell which said in part that the state "will provide detailed program guidelines within which the PIC will operate the program under the grant" and noting that "the law requires that as Governor I make assurances that the funds will be spent in conjunction and in coordination with TANF programs."

The dispute centers around the fact that the law requires states to file a plan developed in consultation and coordination with local officials which contains "assurances" by the governor that it will "coordinate" these expenditures with expenditures under TANF. Governors can rescind funds from PICs that do not do so. At the same time, the statute says that the "private industry council for a service delivery area in a state shall have sole authority, in coordination with

the chief elected official [the mayor]...to expend the amounts described..." Governors interpret this to mean that they set statewide policy which PICs must follow; the mayors believe that this means that the state plan should be simply a compilation of the plans developed by the PICs. Our current draft guidance essentially repeats the statute, not clarifying this issue. The mayors want us to insert at all relevant points that the state plan shall be "based on the programs developed by the PICs" etc.

The Department of Labor believes that the governors' authority to assure coordination with TANF does not give them the authority to tell PICs on which activities or populations to spend the funds. PICs have the freedom to choose from among the eligible activities and individuals in the statute. However, they currently believe that the statute gives states the authority to set other state-wide policies, monitor the expenditure of funds, and enforce the 15% cap on administrative expenses, which the mayors oppose. Thus, a state cannot be forced simply to compile the PIC plans and submit them as its state plan. These matters of interpretation have not been defined in the guidance and are still under discussion at the Department in the development of the draft regulations.

Issues of Policy Disagreement

The mayors would like up to half, rather than one-third, of the match to be in-kind contributions. The Department of Labor is sympathetic; to date, we, along with OMB and HHS, have resisted allowing more than one-third.



NEWS

The United States Conference of Mayors

1620 Eye Street, N.W. • Washington, D.C. 20006
Phone (202) 293-7330 • Fax (202) 293-2352

September 22, 1997

MAYORS, COUNTY LEADERS PROTEST STATE BIAS IN ADMINISTRATION'S WELFARE-TO-WORK DRAFT IN "STRONGEST TERMS POSSIBLE"

Seek Immediate Meeting with Labor Secretary, White House Officials

Meeting in Fort Wayne on September 20, the leadership group of The U.S. Conference of Mayors, joined by top officials of the nation's counties, drafted a letter to Secretary of Labor Alexis Herman, protesting "in the strongest terms possible" the clear state orientation contained in the regulations drafted for the Welfare-to-Work Formula Grants and requesting a meeting with her at her "earliest convenience." The meeting request is also being extended to members of The White House policy staff.

The "Draft Interim Planning Guidance and Instructions for Submission of Annual State Plans, Fiscal Year 1998 Welfare-to-Work Formula Grants" had been published last week by the Labor Department's Employment and Training Administration. A review of the draft during the annual leadership meeting of the Conference of Mayors in Fort Wayne revealed a plan that, in the view of the mayors and county leaders, focused on centralized state decision-making in the welfare-to-work program, not the local involvement in planning and operation of the program that was anticipated.

"The tone and substance of that Guidance totally ignores the statutory role that Private Industry Councils are to have in operating the program and determining the best way for their areas to move recipients from welfare to work," the letter states. "Mayors and county officials expected that the program they supported would focus on local efforts to create jobs and move welfare recipients into them." For example, the Guidance states that "The WtW grants provide a critical tool to help states achieve their own welfare reform goals and to meet their responsibilities...to move welfare recipients into permanent employment and off welfare." It further states that WtW grants are intended to supplement each state's overall capacity for assisting the welfare recipient population in the state and provide the state an opportunity to integrate workforce development systems with assistance and services available to welfare recipients.

-more-

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"The Guidance assumes a top-down planning structure with the state telling the PICs which population to target and how to design and operate their programs," the mayors and county leaders wrote.

The letter to Secretary Herman, also delivered to President Clinton, was signed by the President of the Conference, Fort Wayne Mayor Paul Helmke; the President of the National Association of Counties, Hennepin County (MN) Commissioner Randy Johnson; the Chair of the Large Urban County Caucus, Hennepin County Commissioner Peter McLaughlin; and 27 of the Conference's officers, Trustees, committee and task force chairs.

CONTACT: Mike Brown, (202) 861-6708



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

August 25, 1997

The Honorable Edward Rendell
Mayor
City of Philadelphia
City Hall
Philadelphia, Pennsylvania 19106

Dear Mr. Mayor: *ER*

I would like to share with you my thinking with regard to the administration of the welfare-to-work grants that we expect from the Balanced Budget Act of 1997 (P.L. 105-33). As you may be aware, the law provides \$3 billion in funding for welfare-to-work initiatives. In fiscal years 1998 and 1999, \$1.5 billion will be available to states through formula and competitive grants. The Commonwealth is excited about the opportunity to expand and enhance its welfare-to-work initiatives to help more welfare recipients connect to jobs.

Pennsylvania will apply for its portion of the formula grant. In order to access the grant, the law requires the Commonwealth to submit an amendment to the Temporary Assistance to Needy Families (TANF) state plan outlining how the money will be utilized and how TANF recipients will be served. The Commonwealth is required to develop a formula to distribute 85 percent of the funds to the local Private Industry Councils (PICs) through the Service Delivery Areas (SDAs). I am committed to ensuring that those areas throughout the Commonwealth with high concentrations of TANF recipients receive funding. Since Philadelphia is home to approximately 43 percent of the TANF population, it is particularly important that we work closely to optimize the value of this program to these Pennsylvania citizens.

The law requires that as Governor, I make assurances that the funds will be spent in conjunction and in coordination with TANF programs. In order to make certain that this is accomplished with a minimum of conflict and overlap with existing welfare programs and policies, I have assigned lead responsibility to the Department of Public Welfare. Secretary Feather Houston will work closely with Secretary Butler, Secretary Hickok, Secretary McCullough and Secretary Browdie on the Harrisburg side, and closely with your office and the PIC in Philadelphia.

It is our intent to design and oversee the SDAs' contracting of these moneys in a model similar to the Single Point of Contact (SPOC) program. That is, the Local Management

The Honorable Edward Rendell

August 25, 1997

Page 2

Committee (LMC), consisting of the county assistance office executive director, SDA director, job center director, and local education agency, will be the focal point for local program design, daily management and will provide a venue for interagency policy oversight.

As in SPOC, DPW will provide detailed program guidelines within which the PIC will operate programs under the grant. While I understand that the PIC is directly responsible to you as the chief elected official, given the importance of this initiative, I invite direct representation from your office on the LMC, and also suggest a representative from business. I believe we should broaden the consideration of options to programs and approaches that may not have been part of the traditional set of offerings to welfare recipients. To this end, the LMC will create a special advisory committee composed of welfare clients and their advocates.

I am sure you will agree that we should not wait for the federal government to provide guidance to begin planning the array of programs to be available in Philadelphia. I would like to propose a meeting in late September of the expanded SPOC LMC to begin considering options and priorities. If you will designate a representative from your office to work with DPW staff, I am confident we can be off to a quick start when funding details are known this fall.

I look forward to working with you to further our welfare-to-work efforts and help more families achieve self-sufficiency.

Sincerely,



TOM RIDGE

**THE UNITED STATES CONFERENCE OF MAYORS
NATIONAL ASSOCIATION OF COUNTIES**

September 20, 1997

The Honorable Alexis Herman
Secretary of Labor
300 Constitution Ave., NW
Washington, D.C.

Dear Secretary Herman:

Today in Fort Wayne the leadership of The U.S. Conference of Mayors met with the President of the National Association of Counties and the Chair of the Large Urban County Caucus to review issues of mutual concern. Among the issues discussed was the Draft Interim Planning Guidance for the Welfare-to-Work Formula Grants. We are writing to protest in the strongest terms possible the clear state orientation of the Guidance and to request a meeting with you at your earliest convenience.

The tone and substance of that Guidance totally ignores the statutory role that Private Industry Councils are to have in operating the program and determining the best way for their areas to move recipients from welfare to work. Mayors and county officials expected that the program they supported would focus on local efforts to create jobs and move welfare recipients into them. However:

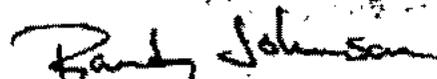
- The Guidance contains a policy framework which states: "The WtW grants provide a critical tool to help states achieve their own welfare reform goals and to meet their responsibilities under PRWORA to move welfare recipients into permanent employment and off welfare." The focus, clearly, is on support for centralized state decision-making.
- The Guidance states that WtW grant is intended to supplement each state's overall capacity for assisting the welfare recipient population in the state and that it provides the state an opportunity to integrate workforce development systems with assistance and services available to TANF recipients. Again, the goal is to support centralized state decision-making.
- The Guidance assumes a top-down planning structure with the state telling the PICs which population to target and how to design and operate their programs.

In our view, this Guidance needs major revision. We stand ready to work with you to achieve this.

Sincerely,



Mayor of Fort Wayne
President, The U.S. Conference of Mayors



Hennepin County Commissioner
President, National Association of Counties

cc. The President of The United States

Peter McHugh

COMMISSIONER,
NEWEPIN COUNTY

Deede Crane

Mayor of SALT LAKE CITY

Wells E. Webb

Mayor of DENVER

James H. Jell

Mayor of Washington, Pa

Dan Archer

Mayor of DETROIT

Rudolph W. Rabe

Mayor of CHICAGO

John B. Schaefer

Mayor of Elizabeth NJ

Charles E. Jones

Mayor of Fort Worth, Tex

Lee R. Caution

Mayor of CEDAR RAPIDS, IA.

Allen M. Corbett

Mayor of San Leandro, CA

Rosemary McCarber

Mayor of RICHMOND, CA

James A. Jann

Mayor of HEMPSTEAD, N.Y.

Michael A. Sudo

Mayor of Dearborn, Michigan

Jeff Hill

Mayor of Reno, Nevada

John J. ...

Mayor of NORTH LITTLE ROCK

[Signature]

Mayor of Gary, IN

D. W. McHenry

Mayor of St. Louis, Mo

Alvin M. Ho

Mayor of Charlotte

Edward J. Marano
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Thomas A. Menino
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Don H. Moore
Mayor of Beaumont, Texas

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Samuel H. Hix
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John C. ...
Mayor of ELKHART

Paul K. ...
Mayor of Abion Ohio

Elizabeth ...
Mayor of Spokane Falls, Wash



THE UNITED STATES CONFERENCE OF MAYORS

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FACSIMILE TRANSMITTAL SHEET

DATE: _____

FAX NO: 456-2889

TO: Family Bloomberg

FROM: Louisa Walman

DEPT. _____ EXT. NO. _____

NUMBER OF PAGES (INCLUDING COVER SHEET) _____

COMMENTS: Our suggested changes to the
Guidance. Thanks!

Please notify sender if you do not receive complete transmission.

(202) 293 7330

DRAFT INTERIM
PLANNING GUIDANCE AND INSTRUCTIONS FOR
SUBMISSION OF ANNUAL STATE PLANS
Fiscal Year 1998
WELFARE-TO-WORK FORMULA GRANTS

DRAFT

*U.S. Department of Labor
Employment and Training Administration
200 Constitution Avenue N.W.
Washington, D.C. 20210*

September 1997

Draft Interim Planning Guidance
Welfare-To-Work Formula Grants
Fiscal Year 1998

INTRODUCTION

President Clinton has made welfare reform a top priority of his Administration. During his first four years in office, the President granted federal waivers to 43 States to require work, time-limit assistance, make work pay, improve child support enforcement, and encourage parental responsibility. In August 1996, President Clinton signed into law the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), a comprehensive bipartisan welfare reform bill that establishes the Temporary Assistance for Needy Families (TANF) program. A new system of TANF block grants to States was created, changing the nature and provision of Federal welfare benefits in America. This legislation dramatically changed the nation's welfare system into one that requires work in exchange for time-limited assistance and provides support for families moving from welfare to work. In brief, the legislation provides a limit on the amount of time an individual can receive welfare benefits and, with limited exceptions, welfare recipients are expected to engage in work activities to move from welfare assistance to permanent employment.

The PRWORA gives States the opportunity to create a new system that promotes work and responsibility while strengthening families. It challenges us all to remedy the shortcomings of the old system and to provide opportunities that will help needy families under a framework of new expectations.

This focus on moving people from welfare to work is a primary goal of Federal welfare policy. The new Balanced Budget Act of 1997, signed by the President on August 5, 1997, provides additional resources to achieve this goal by authorizing the Department of Labor to provide Welfare-to-Work (WtW) grants to States and local communities for transitional employment assistance to move hard-to-employ TANF recipients with significant employment barriers into unsubsidized jobs offering long-term employment opportunities. These grants will provide many welfare recipients with the job placement services, transitional employment, and job retention and support services they need to make the successful progression into long-term unsubsidized employment and economic self-sufficiency. This program is a key part of the Administration's efforts to create jobs to move people from welfare to work, which include mobilizing the business community to hire welfare recipients, working with civic, religious and non-profit groups to mentor families leaving welfare for work, and hiring our fair share of welfare recipients in the federal government. It should provide Private Industry Councils (PICs) maximum flexibility to move welfare recipients into jobs by meeting local labor market needs.

SUMMARY OF WELFARE-TO-WORK GRANTS

Funding: The grants total \$3 billion. \$1.5 billion is to be awarded in fiscal year 1998 and \$1.5 billion in 1999. There will be two kinds of grants: (1) Formula Grants to States and (2) Competitive Grants to local communities.

with 75 percent to be passed through to PIC

A small amount of the total grant money will be set aside for special purposes: 1 percent for Indian tribes; 0.8 percent for evaluation; and \$100 million for performance bonuses to successful States.

Pass-through

Formula Grants to States: After reserving the special purpose funds described above, 75 percent of the grant funds will be allocated to States based on a formula that equally considers States' shares of the national number of poor individuals and of adult recipients of assistance under TANF. States will be required to pass through 85 percent of the money to local Private Industry Councils (PICs) which are also known as workforce development boards in some areas. A State is allowed to retain 15 percent of the money for welfare-to-work projects to help long-term recipients of assistance enter unsubsidized jobs. States are required to pass through 85 percent of the money to local PICs which are known as workforce development boards in some areas. These funds must be distributed using a substate formula based on the following factors. Between 50 and 100 percent of the funds distributed to local areas must be based on the areas' share of the excess population of poor, i.e., the number of poor individuals in excess of 7.5 percent of the total population. Between 0 to 50 percent may be distributed based on one or a combination of the following factors: (1) the number of adults receiving TANF or AFDC assistance for 30 months or more and (2) the number of unemployed in the SDA. Because of the threshold established in the law, an SDA that would receive less than \$100,000 under such a formula will receive no funds.

(In this document, any provisions applying to a Private Industry Council also apply to a workforce development board.)

In order to receive formula funds, the State must submit a plan in the form of an addendum to the State TANF plan, for the administration of the WtW grant. The Secretary of Labor must determine that the plan meets the statutory requirements. Governors are responsible for administering formula funds and for assuring that they are coordinated with funds spent under the TANF block grant.

passing through 85 percent to the PICs, who are responsible

PICs (workforce development boards) established under the Job Training Partnership Act (JTPA), in coordination with chief elected officials, will administer the program at the local level unless the Secretary of Labor approves a Governor's request to use an alternative administering agency, after determining that the alternative would improve the effectiveness and efficiency of program implementation.

The PIC shall coordinate activities with the TANF agency.

Competitive Grants to Local Communities: The 25 percent of funds not allocated by formula will be used for competitive grants awarded directly to local governments, PICs, and private entities (such as community development corporations, community-based organizations, community action agencies, and other private organizations) who apply in conjunction with a PIC or local government. As appropriate, the Secretary of Labor will give special consideration to the needs of rural areas and cities with large concentrations of poverty.

Targeting of Eligible Participants: The WtW legislation targets service in this program to that group of hard-to-serve TANF recipients which has significant barriers making it difficult for them to move into unsubsidized jobs providing long-term employment opportunities.

Consistent with statutory provisions, the PICs will have sole authority to determine the services to be provided in the Service Delivery Area.

1. At least 70 percent of the grant funds must be spent on individuals who:

(a)(1) are long-term welfare recipients (with 30 or more months of receipt), or who face termination from TANF assistance within 12 months; AND, (a)(2) who face two or three specified labor market deficiencies (lack of high school diploma or GED and low reading or math skills, requiring a substance abuse treatment for employment; have a poor work history) OR

(b) are a noncustodial parent of minors whose custodial parent meets criteria (a)(1) and (a)(2).

2. Up to 30 percent of the grant funds: May be spent on individuals who are "recent" recipients of TANF assistance, or noncustodial parents, who have characteristics associated with long-term welfare dependence, such as school dropout, teen pregnancy, or poor work history.

Allowable Uses of Funds: Funds can be used to help move eligible individuals into long-term unsubsidized jobs by any of the following means: job creation through short-term public or private sector wage subsidies; on-the-job training; contracts with public or private providers of job readiness, job placement, and post-employment services; job vouchers for similar services; community service or work experience; or job retention and supportive services (if such services are not otherwise available to the individual participants receiving WiW services).

Note: "Contracts or vouchers for job placement services supported by such funds must require that at least 1/2 of the payment occur after an eligible individual placed into the workforce has been in the workforce for 6 months."

Program Outcomes: In measuring program outcomes, States will, ~~at a minimum,~~ need to demonstrate their success in serving eligible individuals in terms of: (1) placement in ~~unsubsidized~~ jobs; (2) duration of such placement; and, (3) increase in earnings. ~~The Secretary of Labor may determine other factors to be appropriate in the development of program outcome measures.~~ States may qualify for a performance bonus in FY 2000 based on a formula for measuring performance that will be developed within the next year by the Secretary of Labor, in consultation with the Secretary of Health and Human Services and organizations representing States. In addition, the Secretary of Health and Human Services will take these factors into consideration in the conduct of the national evaluation of WiW.

NOTE: This planning guidance addresses the requirements related to State plans to qualify for the formula grant funds in Fiscal Year 1998. Separate guidance will be issued for both the grants to Indian tribes and the competitive grants.

POLICY FRAMEWORK

The WiW grants provide a critical tool to help States ^{and local governments} achieve their own welfare reform goals and to meet their responsibilities under PRWORA to move welfare recipients into permanent employment and off welfare. ^{The purpose of the WiW program is to} ensure the involvement of the ^{employment and training} system and its ties to ^{the business community} labor. ^{In the process of moving} welfare recipients into jobs.

and labor

~~While the use of WtW funds should occur within the larger framework of the TANF program in each State, States must recognize that WtW funds have a specific purpose, which is:~~

~~"To provide transitional assistance which moves welfare recipients into unsubsidized employment providing good career potential for achieving economic self-sufficiency."~~

WtW grant funds are also targeted to assist those welfare recipients with the most significant barriers to employment (i.e., those characteristics associated with long-term welfare dependence). This target group will require extensive assistance to achieve the employment and earnings goals of the WtW grants.

The state WtW plan should be the compilation of the WtW systems developed by the PDCs.
~~States should not view WtW grant funds as an independent program.~~ WtW must be an integral part of the State's overall program of assistance to move welfare recipients into unsubsidized employment. WtW grants are intended to ^{work through the PDCs} supplement each State's overall capacity for assisting the welfare recipient population in the State ^{by focusing on those communities with the target numbers of people in poverty.}

This is an opportunity for ^{PDCs} States to integrate the operation of work force development systems (including one-stop centers/employment services, JTPA services and school-to-work activities) with assistance and services available to TANF recipients.

State plans for using WtW funds, and the related State funding to meet the matching requirement for formula grant funds, should reflect the following principles:

The ultimate objective for each welfare recipient is placement into an unsubsidized job which provides the potential for achieving economic self-sufficiency.

Activities conducted with grant funds must be grounded in the "work first" philosophy which is a fundamental tenet of PRWORA. Although a variety of activities (e.g., work experience/community service, on-the-job training, placement and post-employment services, job retention services) are authorized under WtW, these activities should be viewed as employment-based developmental steps for moving individuals into, and retaining them in unsubsidized jobs.

Although the Act does not authorize the use of grant funds for independent or stand-alone training activities, State plans may recognize that basic education and vocational skills development as part of an employment experience will be needed by some recipients in order to achieve the ultimate objective of the assistance which is self-sufficiency. [Note: Basic education and vocational skills training where needed, based on the ~~TANF~~ assessment of the recipient's needs, may be provided as a post-employment service where the recipient is employed in either a subsidized or unsubsidized job.]

Matching. The State is required to provide \$1 in matching expenditures during the fiscal year for each \$2 in WtW formula grant funds awarded. The Department authorizes the States to use the uniform financial and administrative requirements of OMB Circular A-102, codified for the Department at 29 CFR 97.24 (The Common Rule) regarding match allowability and documentation, except that no more than one-third of the match may be in the form of in kind contributions, including allowable match from third parties, i.e., private sector contributions. Matching funds include those State and local dollars in excess of funds spent to meet the TANF maintenance-of-effort (MOE) requirement when those funds are spent on WtW eligible participants.

The States bear the burden-of-proof for substantiating match expenditures. The State should use, in developing their WtW plans, the preliminary planning estimates that were issued by the Secretary of Labor on September 3, 1997. If the State fails to meet the matching requirement, the Department will implement an annual reconciliation and grant adjustment for WtW grants based on reported match expenditures through the end of the fiscal year. Well in advance of the year-end reconciliation process, the Department will offer technical assistance to all States with low reported match expenditures in an effort to minimize year-end grant adjustments. The statute provides that the State must expend all of its matching funds within the fiscal year of the grant award. Matching funds, like Federal funds, for this program must be spent on eligible participants and allowable activities under the WtW legislation.

Time Limitations on WtW Funds. WtW grant funds are available for expenditure for a three year period, from the effective date of the grant award.

Administrative Cost. Administrative costs charged to the WtW grant are limited to 15% of total expenditures. Costs for information technology and computerization needed for tracking or monitoring will be excluded from the 15% total. The Department's policy with respect to the 15% administrative cost limitation is (a) the limitation applies to the entire grant, (b) administrative costs are allowable at both the State administrative entity and local levels, and (c) States may impose limitations of less than the statutory 15% at the substate level to ensure compliance with the overall limitation. Quarterly financial reporting instructions for WtW will be provided under separate cover.

Oversight. To assure accountability for the Federal investment with minimal intrusion, the Department will focus its oversight on the required targeting of eligible participants, fund management, expenditure of match, use of funds for allowable services and performance outcomes which address the statute's primary objectives and monitors the States threshold scoring for bonus awards. The States will be required to develop a plan for monitoring and oversight of their subgrantees. DOL will monitor program implementation of the formula grants at the State level and ensure that State monitoring procedures provide adequate oversight at the substate level.

Given the target group for this assistance, the provision of adequate job retention and supportive services will be critical. WtW grant funds may be used to provide these services, but only where these services are not otherwise available to the individual participants receiving WtW services. Plans should reflect an integration of all available resources to provide the full scope of assistance needed by recipients to move into permanent employment.

Integration of resources should include not only those available through WtW and TANF grant funds, but also those available through the JTPA program, State employment service, education agencies, housing agencies, community development organizations, transportation agencies, community-based and faith-based organizations which provide some of the assistance needed by the targeted population.

Plans should be consistent with the assessment requirement and, at State option, an individual responsibility plan as stated in section 408(b). Activities funded through WtW should be effectively coordinated with complementary activities (e.g., assessment, case management, supportive services) being funded through the TANF grant and evidence individualized strategies for transition to unsubsidized employment. State plans should reflect the working relationship with the TANF agency to coordinate the use of these funds and related activities.

State plans should reflect the development and implementation of working relationships with Metropolitan Planning Organizations (MPOs) [regional bodies responsible for developing transportation plans and setting priorities for regional transportation spending], public transit operators, and other transportation providers to ensure that adequate transportation is provided. *by the PICs*

The statutory language of WtW targets the use of grant funds in regards to both the welfare recipients to be assisted and the outcomes to be achieved through that assistance. The planning guidance provided in this document, and the regulations which will be issued shortly, are designed to provide maximum flexibility to States in designing the mix of services needed by the eligible recipient population and formulating the service delivery and governance processes for providing the services. States should use this flexibility to develop and implement innovative approaches that provide welfare recipients the assistance they need to secure and retain quality jobs that provide maximum opportunities for economic self-sufficiency.

PLANNING ASSUMPTIONS

The Department will be issuing regulations shortly addressing the administrative and programmatic requirements of WtW grants. While these regulations are currently under development, the following interim policy interpretations to the statute are provided to assist States in beginning to develop their WtW plans.

and PICs

Reporting. Financial and programmatic reports, will be required on a quarterly basis. We will work with the Department of Health and Human Service (DHHS) to expand the TANF reporting requirements to incorporate those items required by the grant program and will add additional items on program outcomes that are necessary to establish performance thresholds and to assess results. In the interim, the Standardized Program Information Report (SPIR) will be modified to incorporate identification of WtW enrollees and WtW activity categories to facilitate the use of a SPIR based management information system by Private Industry Councils who choose to use it to manage their WtW funded activities locally. However, we will not require the use or submission of SPIR for WtW. All reporting requirements are subject to the OMB approval under the Paperwork Reduction Act of 1995 and 5 CFR 1320.

PLAN CONTENT AND SUBMISSION

This planning guidance is intended to assist States ^{and PICS} to begin designing their WtW program. The information included is based on the Department's current best interpretations of the law. It should be noted that regulations will be issued shortly which may affect some of the interpretations included in these instructions. At that time, if there are any changes necessary to this planning guidance, the Department will issue additional guidance to reflect the regulations.

States should submit a plan, using Attachments A and B for FY 1998 funds, which addresses the components outlined in the Attachments. It is suggested that the plan not exceed 25 pages. The target date for submission of State plans is December 12, 1997. Plans submitted earlier will receive an expeditious review. Plans submitted later will be reviewed promptly in the order of submission. Plans should be submitted, with original signatures, to:

U.S. Department of Labor
 Employment and Training Administration
 Office of Employment and Training Programs
 200 Constitution Avenue N.W. Room N4459
 Washington, D.C. 20210

In addition, copies should be submitted simultaneously to DHHS:

Department of Health and Human Services
 Administration for Children and Families
 Office of Family Assistance
 6th Floor, Aerospace Building
 370 L'Enfant Promenade, SW
 Washington, D.C. 20447

Copies should also be submitted simultaneously to the appropriate regional offices for DOL and DHHS (see addresses attached)

TERMINOLOGY USED

Throughout the planning instructions several acronyms are used for the purposes of the WtW program. The acronyms and their translations are as follows: Welfare-To-Work - WtW; Temporary Assistance For Needy Families - TANF; Job Training Partnership Act - JTPA; Service Delivery Area - SDA; and Private Industry Council - PIC. In areas where the Governor has requested a waiver for an alternate agency, the term PIC used throughout the planning instructions should be replaced with that alternate agency's name.

DESCRIPTION OF THE ATTACHMENTS

In addition to this general guidance, we are providing three attachments. Attachment A contains the Instructions for the State Plan Submission, Attachment B is the Assurance document and Attachment C contains the names, addresses and telephone numbers of the DOL-ETA and DHHS-ACF regional offices.

PLAN REVIEW

State plans will be reviewed by the Department for overall compliance with the provisions of the Act. Only those plans that are consistent with these provisions will be considered complete.

MODIFICATION

Any plan submitted under Section 403(b)(5) of TANF, as amended, may be modified as changes occur related to the operation of the program (matching funds, State and local administrative entity, definitions, etc.). Modifications should be submitted to the same agencies and offices indicated above for the original plan submission.

INQUIRIES

Inquiries should be addressed to Stephanie Curtis at 202-208-7933, extension 161. Information about all State plans will be posted on the WtW home page at <http://wtw.dnleta.gov>.

Attachment A

**ANNUAL STATE PLAN UNDER SECTION 403(b)(5) OF
THE TEMPORARY ASSISTANCE FOR NEEDY FAMILIES
BLOCK GRANT WELFARE TO-WORK
FORMULA GRANTS**

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STATE COMMONWEALTH OF

for the period of

Persons are not required to respond to this collection of information unless it displays a currently valid OMB control number. Respondents obligation to reply to these reporting requirements are required to obtain or retain benefits (Public Law 105-33). Public reporting burden for this collection of information is estimated to average 10 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to the U.S. Department of Labor, Office of Job Training Programs, Room N-4459, Washington, D.C. 20210 (Paperwork Reduction Project 1205-7000).

PROGRAM ADMINISTRATOR(S)

Specify below which State agency will administer, be the Grant Recipient, and identify the Liaison for the Welfare-To-Work Program in the State/Commonwealth of _____

Name of Grant Recipient:	
Address:	
Telephone Number: Facsimile Number: E-mail Address:	

Name of State Administrative Agency (if different from the Grant Recipient):	
Address:	
Telephone Number: Facsimile Number: E-mail Address:	

Name of State WTW Liaison (Individual responsible for day-to-day operations of the grant):	
Address:	
Telephone Number: Facsimile Number: E-mail Address:	

Planning Instructions for the Welfare-To-Work Program

Statutory Provision: The Balanced Budget Act of 1997, Section 5001, Social Security Act, as amended Section 403(a)(5)(A)(ii). "Welfare To Work State: A State shall be considered a welfare-to work State for a fiscal year for purposes of this paragraph if the Secretary of Labor determines that the State meets the following requirements:"

I. Welfare-to-Work Program Description - Statutory Provision, Section 403(a)(5)(A)(ii)(I).
"The State has submitted to the Secretary of Labor and the Secretary of Health and Human Services (in the form of an addendum to the State plan submitted under Section 402) a plan which:"

A. Program Design *"(an) describes how, consistent with this subparagraph, the State will use any funds provided under this subparagraph during the fiscal year;"*

Plan Requirements:

1. Describe the State's targeting strategy to reach hard-to-employ TANF recipients and assure that appropriate activities and services are provided to help these participants achieve self-sufficiency. *The state strategy should incorporate local targeting strategies developed by the PICs.*

2. Define and describe:

a. the employment activities (community service, work experience, job creation through public and private wage subsidies, on-the-job training) that are planned under this grant; and,

b. the utilization of contracts with public and private providers of job readiness, placement and post-employment services; job vouchers for placement, readiness, and post-employment services; job retention, or support services, if not otherwise available to the individual participants receiving WtW services, that are planned under this grant.

3. Describe the policy and procedures which will govern implementation of such activities. Include how WtW funds will be used to provide necessary support services (child care, substance abuse treatment, transportation, etc.,) when these services are not otherwise available to the individual participants receiving WtW services.

Based on the programs developed by the PICs,
 4. List the performance goals and outcomes the State intends to achieve in serving the eligible participants in the WtW program including: (1) placement in unsubsidized jobs; (2) duration of such placement; and, (3) increase in earnings. The performance goals and outcomes should be expressed in measurable, quantifiable terms to the greatest extent possible.

Based on the programs developed by the PICs,

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of how the program will be implemented by PICs across the state

~~5. Describe the State's strategy to implement the Work program.~~ Include a description on the State's implementation strategy, including the roles and responsibilities of the State WtW Administrative Agency and the TANF agency; a list of the substate areas and the local entities responsible for program administration; and, the program's implementation target dates.

6. Identify the policies and procedures *which the PICs within the state develop* the State will issue to the PICs regarding: (1) targeting of eligible participants to be served; (2) identification and referral of participants; and, (3) assessment and case management, if any. Include a description of the coordination efforts that the local TANF and administrative agency will undertake in this process, including the role these local agencies will play in providing assessment and case management to qualified participants.

~~7. Describe the State's procedures for conducting monitoring and oversight of substate areas to ensure adequate fiscal controls and achievement of quality program outcomes for WtW participants. The description should include, but not be limited to:~~

- ~~a. mechanisms for monitoring expenditures of match requirements, allowable activities, and targeting of eligible participants;~~
- ~~b. frequency of monitoring; and~~
- ~~c. use of technical assistance to ensure compliance with the Act and as a tool for corrective action and program improvement.~~

and the PICs
7. Describe the State's strategy to prevent duplication of services and promote coordination among TANF, JTPA, one-stop centers/employment service and other employment and training systems throughout the State.

and the PICs
8. Describe the State's strategy to promote and encourage coordination with the State Department of Transportation (DOT), MPO's, transit operators, and other transportation providers to help ensure that the transportation needs of those moving from welfare to work are met.

and the PICs
9. Describe the State's strategy to promote and encourage coordination with the State Housing Finance Agencies, public and assisted housing providers, and community development agencies.

D. Within State Distribution of Funds. "(bb) specifies the formula to be used pursuant to clause (vi) to distribute funds in the State, and describes the process by which the formula was developed."

Section 403(a)(3)(A)(vi)(I) provides that "A State to which a grant is made under this subparagraph shall devise a formula for allocating not less than 85 percent of the amount of the grant among the service delivery areas in the State, which

"(aa) determines the amount to be allocated for the benefit of a service delivery area in proportion to the number (if any) by which the population of the area with an income that is less than the poverty line exceeds 7.5 percent of the total population of the area, relative to such number for all such areas in the State with such an excess, and accords a weight of not less than 50 percent to this factor;

"(bb) may determine the amount to be allocated for the benefit of such an area in proportion to the number of adults residing in the area who have been recipients of assistance under the State program funded under this part (whether in effect before or after the amendments made by section 103(c) of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 first applied to the State) for at least 30 months (whether or not consecutive) relative to the number of such adults residing in the State; and

(cc) may determine the amount to be allocated for the benefit of such an area in proportion to the number of unemployed individuals residing in the area relative to the number of such individuals residing in the State."

Section 403(a)(5)(A)(vi)(II) provides that "(aa) if the amount allocated by the formula to a service delivery area is at least \$100,000, the State shall distribute the amount of the entity administering the grant in the area."

(bb) Special Rule. If the amount allocated by the formula to a service delivery area is less than \$100,000, the sum shall be available for distribution in the State under subclause (II) during the fiscal year.

Plan Requirement:

Describe the formula factors used by the State to allocate not less than 85 percent of the amount of grant funds among the PICs in the State. Include the weights assigned to each factor and the allocation the State will provide to each substate area.

C. Coordination and Consultation. "(cc) contains evidence that the plan was developed in consultation and coordination with the appropriate entities in the sub-State areas;"

Plan Requirement:

Describe the approach, including process and timing, used to obtain consultation and coordination in the development of the State plan. Include either a summary description of the comments received, along with the names of the individuals or entities who commented, or include copies of the actual comments received as an attachment to the plan.

and take into account

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D. Expenditure of Funds. "(dd) contains assurances by the Governor of the State that the private industry council (and any alternate agency designated by the Governor under item (ee)) for a service delivery area in the State will coordinate the expenditure of any funds provided under this subparagraph for the benefit of the service delivery area with the expenditure of the funds provided to the State under section 403(a)(1), and"

Plan Requirements:

1. Describe the process the State will use to maintain administrative costs at the 15 percent limit, include any percentage limitations the State plans to set for substate areas, the rationale for such limitations, and a description on how administrative funds will be allocated between States and substates.

2. Describe how the PIC, and any alternate agency designated by the Governor, will coordinate the expenditure of any funds provided for the WtW program between TANF and WtW.

E. Application for Waiver. "(ee) if the Governor of the State desires to have an agency other than a private industry council administer the funds provided under this subparagraph for the benefit of 1 or more service delivery areas in the State, contains an application to the Secretary of Labor for a waiver of clause (vii)(1) with respect to the area or areas in order to permit an alternate agency designated by the Governor to so administer the funds."

Section 404(a)(5)(A)(vii)(III) provides that "The Secretary of Labor shall approve an application submitted under clause (ii)(1)(ee) or subclause (II)(bb) of this clause to waive subclause (1) of this clause with respect to 1 or more service delivery areas if the Secretary determines that the alternate agency designated in the application would improve the effectiveness or efficiency of the administration of amounts distributed under clause (vi)(1)(aa) for the benefit of the area or areas."

Plan Requirements:

1. Provide copies of any comments from the Chief Elected Official(s) regarding the Governor's selection of the alternate agency.

2. Include information that indicates how the selection of ~~the~~ alternate agency will improve the effectiveness or efficiency of the program in each of the affected substate areas, including the advantages provided by the alternate agency in achieving the goals of WtW. In presenting the rationale, the Governor should provide such information as (s)he deems is necessary to support the waiver request. This information should include such items as, the reasons for not using the PIC (including poor performance under the Job Training Partnership Act or evidence that the PIC has refused the WtW administrative role), and/or the unique capabilities of the alternate agency to coordinate activities and resources among the relevant local agencies in order to achieve planned outcomes.

Review and Approval of Waiver Requests:

The Secretary of Labor shall assess the information provided by the Governor as well as the input from the affected CEOs in reaching a decision on the granting of the waiver requested.

II. Description of 15 % Projects to Help Long-Term Recipients of Assistance Enter Unsubsidized Jobs. *Statutory Provision. "Section 403(a)(3)(A)(v)III) The Governor of a State to which a grant is made under this subparagraph may distribute not more than 15 percent of the grant funds (plus any amount required to be distributed under this subclause by reason of subclause (II)(bb)) to projects that appear likely to help long-term recipients of assistance under the State program funded under this part (whether in effect before or after the amendments made by section 103(a) of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 first applied to the State) enter unsubsidized employment."*

Plan Requirements:

Describe the State's plans for the expenditure, uses and goals of the 15% funds. These funds may be distributed to public, private non-profit, and private for profit entities, including PICs, governmental entities, community based organizations, and community development corporations.

III. Estimate of Matching Funds. *Statutory Provision. "Section (n)(5)(A)(ii)II) The State has provided to the Secretary of Labor an estimate of the amount that the State intends to expend during the fiscal year (excluding expenditures described in section 409(a)(7)(B)(iv) (other than subclause (II) thereof)) pursuant to this paragraph."*

Plan Requirements:

1. Include an estimate of the amount of matching expenditures the State expects to make during the fiscal year.
2. Include the process by which these expenditures will be monitored and reported quarterly to ensure the State meets its projected match.

IV. Funding.**Plan Requirement:**

The State should submit an estimate of expenditures of WtW formula grant funds for each quarter of the fiscal year by percentage or dollar amount.

V. Assurances. See Attachment B.

VI. Signature. An original signature of the Governor or authorized designee shall be affixed to each State plan submitted to the DOL National Office. The typed name, title and signature date of the signatory official must also be provided.

Attachment B

PROGRAM ASSURANCES

(This section has been designed to assist the Governor certify that the State will comply with the provisions in Section 5001 of the Balanced Budget Act of 1997 and the applicable regulations.)

DRAFT

ASSURANCES

The State/Commonwealth of _____, assures to the following requirements under Title IV-A of the Social Security Act.

PROGRAM ADMINISTRATION/ACTIVITIES

1. The State is an eligible State, pursuant to Section 402(a) for the fiscal year. *Statutory Citations: Section 402(a); Section 403(a)(5)(A)(ii)(IV).*
2. The State assures that qualified State expenditures (within the meaning of Section 409(a)(7)) for the fiscal year will not be less than the applicable percentage of historic State expenditures (within the meaning of Section 409(a)(7)) with respect to the fiscal year. *Statutory Citations: Section 403(5)(A)(ii)(V); Section 409(a)(7).*

[That is, the State has met its TANF maintenance-of-effort requirement under Section 409(a)(7) for the fiscal year].
3. The State has consulted and coordinated with the appropriate entities in the sub-State areas regarding the plan and the design of WtW services in the State. *Statutory Citation: Section 403(a)(3)(A)(ii)(cc).*
4. The State will make available to the public a summary of the WtW plan. *Statutory Citation: Section 402(b).*
5. The State has agreed to negotiate in good faith with the Secretary of Health and Human Services with respect to the substance and funding of any evaluation under Section 413(j) and to cooperate with the conduct of such an evaluation. *Statutory Citations: Section 403(a)(5)(A)(ii)(III); Section 413(j).*
6. The State shall not use any part of these grant funds, nor any part of state expenditures made to match the funds, to fulfill any obligation of any state, political subdivision, or private industry council to contribute funds under sections 403(u) or 418 or any other provision of the Social Security Act or other federal law. *Statutory Citation: Section 403(a)(5)(C)(vi).*
7. The State will return to The Secretary of Labor any part of the WtW funds that are not expended within 3 years after the date the funds are so provided. *Statutory Citation: Section 403(a)(3)(C)(vi).*
8. The State WtW program will be conducted in accordance with the WtW legislation, regulatory provisions, future written guidance provided by the Department, and all other applicable Federal and State laws.

9. The State will apply the TANF law and regulations to the operation of the WtW program, unless otherwise specified by the Department or defined in Section 403(a)(5) or the applicable WtW regulations.
10. ^{assure that} The State ~~will provide~~ services under the WtW grant ^{as provided} to eligible participants only.
11. The State has the capability to maintain and submit accurate, complete and timely participant and financial records reports as specified by the Secretary.
12. The State will establish a mechanism to exchange information and ^{assure that through the TIC} coordinate the WtW program ^{in coord. with} with other programs available that will assist in providing welfare recipients employment.
13. The State shall adhere to the certifications required under TANF and will meet the TANF maintenance of effort requirements.
14. The State will comply with the uniform fiscal and administrative requirements of OMB Circular A-102 as codified for DOL at 29 CFR Part 97.
15. The State will follow the audit requirements of The Single Audit Act of 1984 and OMB-Circular A-133.
16. The State will follow the allowable cost/cost principles of OMB Circular A-87.

WORKER PROTECTIONS

1. The State will establish policies to enforce the provisions regarding non-displacement in work activities. *Statutory Citation: Section 403(a)(5)(J)(i).*
2. The State assures that the Health and Safety standards established under Federal and State law otherwise applicable to working conditions of employees shall be equally applicable to working conditions of other participants engaged in a work activity under a program operated with funds provided under WtW. *Statutory Citation: Section 403(a)(5)(J)(ii).*
3. The State will enforce the provision that an individual may not be discriminated against by reason of gender with respect to participation in work activities engaged in under the WtW program. *Statutory Citation: Section 403(a)(5)(J)(iii).*
4. The State shall establish and maintain procedures for grievances or complaints from participants and employees under the WtW program. The procedures established will be consistent with the requirements of Section 403(a)(5)(J)(iv). *Statutory Citation: Section 403(a)(5)(J)(iv).*

5. The State shall establish and enforce standards and procedures to ensure against fraud and abuse, including standards and procedures against nepotism, conflicts of interest among individuals responsible for the administration and supervision of the State WtW program, kickbacks, and the use of political patronage.
6. The State will apply and enforce the nondiscrimination provisions of the laws enumerated at Section 408(c), with respect to participation in work activities engaged in under the WtW program.

Governor or Authorized Signatory (Type and Sign Name)	
Title, (if other than the Governor)	
Date Signed	

U.S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY
WASHINGTON, D.C.
20210

November 4, 1997

Mr. Bruce Reed
Assistant to the President
for Domestic Policy
Room 216 OEOB
Washington, D.C. 20500

Dear Mr. Reed:

As the Department begins to implement the Welfare to Work grants program, I am convening a few small policy dinners to discuss this important initiative. I hope you will join me on **November 18 from 6:00 - 7:30 p.m. at the U.S. Department of Labor, 200 Constitution Ave., N.W., Washington, D.C.** for an informal discussion of key issues and promising efforts in the field. Your particular expertise and insight will be invaluable as we move forward with our Welfare to Work program.

As you know, the nation's welfare rolls have shrunk significantly since enactment of welfare reform. To further this effort, in August the President signed the Welfare to Work initiative, authorizing \$3 billion over two years in grants to states, localities and private entities. These grants -- both formula grants to states and localities and competitive grants to localities and private groups -- are aimed at helping the hardest to employ achieve self-sufficiency.

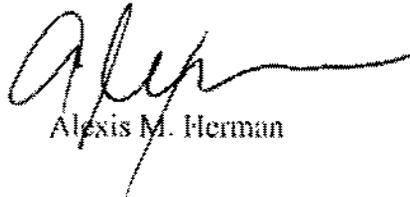
We face an enormous challenge in serving these welfare beneficiaries as they move to permanent, unsubsidized employment. While we have significant expertise in this area, we recognize that a successful Welfare to Work effort requires innovation, enterprise, commitment and creativity. Moreover, we must learn from best practices in the field and identify every possible opportunity to disseminate it to practitioners and program operators.

To lay the best possible foundation, I hope you will join me in this informal discussion about the optimal ways to ensure the success of this effort. Specifically, I hope we can address the following issues:

- What are the most significant barriers we face in producing positive outcomes for this population?
- What measures should we undertake to enhance results?
- What should be the role of the federal government vis-a-vis states, localities and private groups?
- What are the critical partnerships that must be forged?
- Where are the best models and initiatives?
- How can we best utilize our resources, including technical assistance and competitive grants?

I look forward to working with you as we undertake this critical initiative. Please contact Leslie Loble at (202) 219-6050 or Lynn Jennings at (202) 219-5109, ext. 168 for further information regarding the structure of these sessions. Questions about logistics should be addressed to Kerri Sheehan at (202) 219-5109, ext. 123.

Sincerely,



Alexis M. Herman

Enclosures:
Fact Sheet
White Paper
Competitive Grants Paper

Fact Sheet



U.S. Department of Labor
Washington, DC

WELFARE-TO-WORK GRANTS

Background

In August 1996, the Personal Responsibility and Work Opportunity Reconciliation Act reformed the nation's welfare laws. A new system of block grants to the States for Temporary Assistance for Needy Families (TANF) was created, changing the nature and provision of welfare benefits in America.

Moving people from welfare-to-work is now one of the primary goals of federal welfare policy. The new Balanced Budget Act of 1997, signed by the President on August 5, helps to achieve that goal by authorizing the U.S. Department of Labor to provide Welfare-to-Work Grants to States and local communities to create additional job opportunities for the hardest-to-employ recipients of TANF. These grants will provide many welfare recipients with the job placement services, transitional employment, and other support services they need to make the successful progression into long-term unsubsidized employment.

Summary of Welfare-to-Work Grants

FUNDING: The grants total \$3 billion: \$1.5 billion to be awarded in fiscal year 1998 and \$1.5 billion in fiscal year 1999. There will be two kinds of grants: (1) Formula Grants to States and (2) Competitive Grants to local communities. A small amount of the total grant money will also be set aside for special purposes: 1 percent for Indian tribes; 0.8 percent for evaluation; and \$100 million for performance bonuses to successful States. Grantees will have up to three years to spend the funds.

FORMULA GRANTS TO STATES: After reserving the special purpose funds described above, 75 percent of the grant funds will be allocated to States based on a formula that equally considers States' shares of the national number of poor individuals and adult recipients of assistance under TANF. States will be required to pass through 85 percent of the money to local Private Industry Councils (known as workforce development boards in some areas), which oversee and guide job training programs in geographical jurisdictions called service delivery areas. A State is allowed to retain 15 percent of the money for welfare-to-work projects of its choice. States must provide one dollar of non-federal funding match for every two dollars of federal funding provided under the formula.

Substate Allocations: Half of the funds distributed by formula to local areas must be based on a service delivery area's residents who are poor, i.e., the number of poor individuals in excess of 7.5 percent of the total population. Not more than half may be distributed based on two additional factors: (1) the number of adults receiving TANF assistance for 30 months or more and (2) the number of unemployed in the service delivery area.

State Plan and Administration: In order to receive formula funds, the State must submit a plan for the administration of the Welfare-to-Work grant. The Secretary of Labor must determine that the plan meets the statutory requirements. Governors are responsible for administering formula funds and for assuring that they are coordinated with funds spent under the TANF block grant.

work
welfare to

Local Administration of Formula-Allocated Funds: Private Industry Councils (workforce development boards) established under the Job Training Partnership Act, in coordination with chief elected officials, will administer the program at the local level unless the Secretary of Labor approves a Governor's request to use an alternative administering agency, after determining that the alternative would improve the effectiveness or efficiency of program administration.

Performance Bonuses: States may qualify for a performance bonus in fiscal year 2000 based on a formula for measuring performance that will be developed by the Secretary of Labor, in consultation with the Secretary of Health and Human Services and organizations representing States. Factors to be taken into account include job placement, duration of placement, and any increase in earnings.

COMPETITIVE GRANTS TO LOCAL COMMUNITIES: The 25 percent of funds not allocated by formula will be used for competitive grants awarded directly to local governments, Private Industry Councils, and private entities (such as community development corporations, community-based organizations, community action agencies, and other private organizations) who apply in conjunction with a Private Industry Council or local government. The Secretary of Labor will give special consideration to cities with large concentrations of poverty as well as to rural areas.

FEATURES WHICH APPLY TO FORMULA AND COMPETITIVE GRANTS:

Allowable Uses of Funds: Funds may be used to help move eligible individuals into long-term unsubsidized jobs using strategies like: job creation through short-term public or private sector wage subsidies; on-the-job training; contracts with public or private providers of job readiness, job placement, and post-employment services; job vouchers for similar services; community service or work experience; or job retention and supportive services (if such services are not otherwise available).

Targeted Participant Eligibility:

At Least 70 Percent of the Grant Funds: Must be spent on individuals who face two of three specified labor market deficiencies and who are long-term welfare recipients, or who face termination from TANF within 12 months; or who are noncustodial parents of minors whose custodial parent meets these criteria. Labor market deficiencies include (1) lack of high school diploma or GED and low reading or math skills, (2) requiring a substance abuse treatment for employment, and (3) a poor work history.

Up to 30 Percent of the Grant Funds: May be spent on individuals who are "recent" recipients of TANF assistance or noncustodial parents who have characteristics associated with long-term welfare dependence -- such as school dropout, teen pregnancy, or poor work history.

Relationship to TANF Time Limits: Assistance can be provided to individuals who have reached the 60-month TANF time limit. Such assistance does not count toward the 60-month limit unless it is cash assistance provided directly or through wage subsidies. In those cases, the months do count toward the 60-month limit.

Labor Protections: Labor protections that apply to activities carried out under the grant program include non-displacement, health and safety standards, gender non-discrimination, and grievance procedures to address violations of these protections.

Evaluation: The Secretary of Health and Human Services, in consultation with the Secretaries of Labor and Housing and Urban Development, will develop a plan to evaluate the grant program.

Implementation of Welfare-to-Work Grants

**U.S. Department of Labor
Alexis M. Herman, Secretary
October 1997**

Implementation of Welfare-to-Work Grants

The Balanced Budget Act of 1997 authorizes \$3 billion for a Welfare-to-Work Grant initiative that will provide needed resources for States and localities to create job opportunities for the hardest-to-employ welfare recipients. These Welfare-to-Work Grants will complement the services provided to welfare recipients through the Temporary Assistance for Needy Families (TANF) program with job placement services, transitional employment and the supportive services they need to move into lasting, unsubsidized employment.

Most people on public assistance want to work. The overriding objective of these grants is to encourage and support them in this endeavor. For this initiative to be successful, it will require a wide range of strategies and involve a coordinated response by federal, State and local governments; private employers and other interested organizations.

The Welfare-to-Work Grants initiative is founded on seven key principles, including broad involvement of the community, individual opportunity and responsibility of welfare recipients, and an effort to make the most effective use of the resources available to address this issue. These grants are the latest element in a broad array of initiatives designed to move welfare recipients toward self-sufficiency.

I. THE CHALLENGE

This is not the end of welfare reform, this is the beginning. And we have to all assume responsibility. Now that we are saying with this bill we expect work, we have to make sure that people have a chance to go to work.

President Bill Clinton

The Welfare-to-Work Grants are part of an Administration-wide effort to transform welfare into a work-based system. On August 22, 1996, President Clinton signed into law "The Personal Responsibility and Work Opportunity Reconciliation Act of 1996" (PRWORA), a comprehensive bipartisan welfare reform plan that has dramatically changed the nation's welfare system into one that requires work in exchange for time-limited assistance. It shifts the welfare system from one that too often fostered dependence to one that emphasizes independence and work.

The law contains strong work requirements, a performance bonus to reward States for moving welfare recipients into jobs, State maintenance-of-effort requirements, comprehensive child support enforcement, and support for families moving from welfare to work — including increased funding for child care and guaranteed medical coverage. It ends the entitlement to welfare benefits and limits receipt of federally funded public assistance to five years for families containing an adult.

The Clinton Administration has taken numerous steps to ensure the success of the law. In the past year, the Administration has provided assistance to States and localities in implementing the law; created partnerships with the business, faith-based and non-profit communities to hire and train welfare recipients; and delivered on the President's pledge to invest in moving people from welfare to work.

Title I of PRWORA is the block grant for Temporary Assistance for Needy Families (TANF). TANF gives States significant flexibility to create and implement new welfare-to-work programs. For the first time States are free to determine the allocation of funds between cash assistance and employment-related services. This emphasis on placing welfare recipients in jobs or other work-related activities is known as the "work first" strategy. With this additional flexibility comes demanding requirements to move large numbers of recipients into work activities and stiff penalties for failing to do so. The new Welfare-to-Work Grants give States and localities significant new resources for finding and creating jobs for the hardest-to-employ TANF recipients.

The welfare population is diverse. Some people on public assistance need minimal or no help in finding work. However, many welfare recipients -- especially those with poor education, low skills, and little work experience -- have difficulty finding jobs and keeping those jobs once they are hired.

In several welfare-to-work experiments where participants were tracked for five years, 25 percent or more did not work during that time. Many more participants worked only intermittently. Nevertheless, there is widespread agreement that well-executed employment, training and educational programs can have positive effects on individuals and can be cost-effective.

Although program evaluations have generally not addressed the question of what characteristics are responsible for the outcomes achieved, most informed observers agree that most successful welfare-to-work programs include:

- o An unambiguous focus on employment and self-sufficiency;
- o A range of work-focused services, including job search and job readiness, skills training, and work experience, to meet the varying needs of recipients;
- o Close monitoring of both participation and progress, with clear consequences for non-performance;
- o Ongoing support to help participants overcome barriers to participation and employment;
- o Targeted benefits for recipients who obtain work -- benefits such as transitional child care and medical assistance, transportation and financial incentives that make work pay; and

- o Strong coordination among the various agencies that serve participants and adequate resources to meet the needs of these individuals.

To become self-sufficient, the hardest-to-employ welfare recipients may also need temporary subsidized jobs or other forms of temporary work experience -- including community service work -- to help them make the transition to permanent, unsubsidized employment.

Many welfare-to-work programs did not attempt to serve the least job-ready welfare recipients. Therefore the lessons learned from them might not be applicable to such recipients. Those programs that have made serious attempts to help the hardest-to-employ have found that considerable efforts -- including program flexibility, extensive supportive services and the investment of staff time to develop a trusting relationship with participants -- are required to help these individuals overcome employment barriers to find and hold jobs.

Helping the welfare recipients who are the focus of the new Welfare-to-Work grants to become self-sufficient will require effective partnerships between the workforce development system and the welfare system at the State and local levels. In many cases, support from the transportation system and links to public housing authorities also will be vital to the success of this initiative.

II. GOAL AND STRATEGY

We are committed to help people gain the skills and information to help them get jobs in the private sector -- and keep those jobs. And we believe that work must pay for any person struggling to get off welfare.

Secretary of Labor Alexis Herman

The key objective of welfare reform is to break the cycle of dependency by promoting responsibility and work. The Department of Labor will use Welfare-to-Work grant resources to move the hardest-to-employ recipients of TANF from dependency toward self-sufficiency through job-placement services; temporary, transitional jobs; and support services.

The Welfare-to-Work Grants initiative targets services to the roughly 20 percent of the adult welfare population who are most at risk of long-term welfare dependency and who have the most significant barriers to employment.

The strategy for serving this population includes the following components:

- o Using employer-connections and job counseling and placement services of the workforce development system to provide job opportunities;
- o Using the supportive services of the welfare and workforce development systems to help individuals remove barriers to employment and help them remain in jobs;

- o Working with the transportation community to ensure that the transportation needs of those moving from welfare to work are met;
- o Helping eligible welfare recipients acquire the skills, behaviors and knowledge to keep jobs through on-the-job training;
- o Maximizing job retention and increases in earnings through post-placement services such as mentoring, counseling and skills up-grading; and
- o Increasing the active involvement of businesses in hiring eligible welfare recipients, training and retaining them, and providing opportunities for promotion as appropriate.

The Administration's top priority is to stimulate private sector job opportunities, but not all eligible welfare recipients will be able to find such jobs immediately. Subsidized employment, community service projects, and work experience may be appropriate transition strategies that help recipients move to unsubsidized employment. Many recipients will be able to build a career based on these placements and skills.

The Welfare-to-Work Grants initiative will support all of these strategies in a variety of ways:

- o Formula grants will be used to expand the capacity and capability of local systems to place eligible recipients into jobs;
- o Competitive grants will be used to find new ways to help the hardest to employ make the transition to work and to target resources in areas of high need; and
- o The grants will leverage other public and private resources and promote the coordinated use of funds to provided needed services.

Aiding the hardest-to-employ welfare recipients in finding sustained unsubsidized employment is a formidable challenge -- one that requires a broad-based coordinated response that utilizes the resources of federal, State and local governments; private employers and other interested organizations. The development and improvement of administrative, communications, data processing and other systems to link the workforce development system and the welfare system will be encouraged, with the goal of improving services.

Private industry councils, local elected officials, local welfare agencies, One-Stop/ Employment Service agencies, employers, and other interested community organizations should be involved in planning for -- and carrying out -- job-placement and job-creation activities. And the private industry council, local TANF agency and transportation providers should work together so that eligible recipients are promptly referred for help and receive coordinated support from these systems, so that duplication can be avoided. Such coordination will become increasingly important as the most job-ready adults find employment, leaving a growing proportion of the hard-to-employ recipients on welfare caseloads.

The Department of Labor will explore -- based on the success of the Worker Profiling and Reemployment Services system for dislocated workers -- the design of a "profiling" system that States could use in determining what employment and related services will most benefit recent and long-term welfare recipients.

Welfare-to-Work Grants can facilitate the development of a coordinated "work first" strategy. In those places where the welfare system is closely linked with the workforce development system, this initiative can reinforce and complement such linkage and promote the concerted "work first" approach of PRWORA. Where such linkages are not sufficiently developed, these grants will help provide resources and the impetus for closer collaboration.

At the State level, a Governor may choose to use the State workforce development agency, the TANF agency or another State entity to administer Welfare-to-Work formula grants and for performance oversight. Some States -- such as Connecticut, Florida, Indiana, Iowa, and Wisconsin -- have initiated plans to take advantage of State entities' unique resources, concentrating welfare-to-work activities and job placement for welfare recipients through emerging One-Stop systems.

The programs at the Department of Housing and Urban Development (HUD) also offer many opportunities for cooperation with other agencies in the implementation of the Welfare-to-Work Grants initiative. Private Industry Councils (PICs) and Public Housing Authorities (PHAs) have the potential to share resources and develop joint programs that will expand the capacity of both organizations to address the needs of families that receive both welfare and housing assistance. PHAs can offer both employment opportunities and training and service programs. They can also provide space for community welfare-to-work programs. Many PHAs are actively involved in efforts to prepare residents for work, place them in jobs, and provide the services necessary to continue working. In many communities, partnerships between PICs and PHAs already exist; where they do not exist, they should be encouraged.

HUD's community development programs such as Community Development Block Grants generate substantial numbers of new jobs. Many of these development projects are located in the very areas targeted by the welfare-to-work grant initiative and would offer opportunities for employment for welfare recipients when coupled with the employment services provided by the Welfare-to-Work Grants.

At the Federal level, the Departments of Labor, Health and Human Services, Housing and Urban Development and Transportation -- and other agencies -- will collaborate to facilitate these linkages between the workforce development and welfare systems and to deliver technical assistance to States and localities.

III. BASIC PRINCIPLES

Today we are moving forward on the promise of real welfare reform -- turning welfare offices into worker support offices and replacing welfare checks with paychecks. We are working with States and communities to implement the law successfully; partnering with the business, religious and non-profit communities to hire and train welfare recipients, and addressing barriers to help people get off and stay off welfare forever.

Secretary of Health and Human Services Donna Shalala

The Welfare-to-Work Grants initiative is based on seven key principles, designed to move welfare recipients toward unsubsidized employment:

- o Develop public-private sector partnerships;
- o Engage the whole community;
- o Promote individual opportunity and responsibility;
- o Ensure labor protections;
- o Increase flexibility;
- o Demand performance; and
- o Build on what works.

Develop Public-Private Sector Partnerships. An essential ingredient in any "work first" strategy is the availability of job opportunities. Business and labor should be partners in the design of local welfare-to-work job placement and retention and job creation services for those needing work experience. They should work closely with private industry councils, the state welfare agencies, One-Stop/Employment Service centers, and service providers to (1) provide information on what skills are in demand and what jobs are available; (2) encourage the skills upgrading of welfare recipients and other low-wage workers; (3) monitor the quality and effectiveness of job-placement and job-retention services; and (4) recognize those companies that help recipients find and keep decent jobs.

The Work Opportunity Tax Credit (WOTC) provides incentives to employers to hire workers that they would not otherwise hire. The federal tax credit reduces employers' federal tax liability when they hire new workers from certain target groups -- including welfare recipients. The WOTC applies to eligible workers hired before July 1, 1998.

On August 5, 1997, the President signed the "Taxpayer Relief Act of 1997," which established a new Welfare-to-Work Tax Credit. Under this enhanced credit, employers who hire long-term

recipients of family assistance may claim a maximum tax savings of \$8,500 over two years for each eligible worker hired after December 31, 1997, and before May 1, 1999.

It may be useful to train case managers and other direct program staff, to instruct them how to work with employers so that the use of tax credits will not carry with it the stigma that often is attached to their use. Case managers could emphasize to employers that they will be working with the clients over a period of time to help them sustain their employment. Case managers could thus act as a liaison between employers and the persons hired through tax credits -- helping to solve problems that otherwise would lead to the new employee quitting or being fired.

Engage the Whole Community. In addition to businesses and labor unions, it takes the entire community -- community groups, schools, faith-based organizations and others -- to do their part to create jobs for those hardest to employ and to support their transition to self-sufficiency.

- o The **Indianapolis Rebuilding Families Program** includes a peer mentoring and media strategy campaign intended to combat poverty, reduce teen pregnancy and help welfare recipients move into the work place. Faith in Families is a faith-based congregation mentoring program directed at reducing the high rate of "second" child births by teenagers. Jobs or Jail is a program designed to boost child support payments and encourage responsible fatherhood. The Indianapolis Private Industry Council and the business community are an integral part of this community wide effort. Other localities, such as San Diego and San Francisco, have instituted similar community-wide efforts,

State and local officials, grant recipients and other private entities should knit together the range of resources available (e.g., State and local public and private resources including TANF, Food Stamps, vocational and adult education) so that obstacles to unsubsidized employment will be minimized.

For example, transportation planners and providers need to be full partners in moving welfare recipients to work. Studies in several cities are showing that serious transportation gaps exist between where welfare recipients work and where they live. People cannot work if they cannot get to the job site, no matter how ready they are or how many jobs are available. Some States and communities, like the two mentioned below, have started addressing the unemployment transportation needs of their welfare recipients.

- o The **Delaware Job Works Program** provides free transportation for job interviews. It was set up by the Delaware Transit Corporation, along with the Delaware Department of Labor and Health and Social Services. Delaware also provides transportation to newly hired employees until they receive the first paycheck.
- o **Kentucky** is currently implementing a new transportation delivery system for beneficiaries of public assistance programs. The new system combines and coordinates the transportation programs of four departments, including the social service agency and the workforce agency. A capped system of payment to contracted regional transportation

providers will be implemented. Beneficiaries will be able to access a toll-free number to arrange for services. The transportation services are also available to paying customers. The new system will extend services to rural areas and other areas of the State with inadequate public systems.

Promote Individual Opportunity and Responsibility. Recipients under TANF must take on major new responsibilities to prepare for, find and continue work. While many welfare recipients may seek workforce development services on their own, local private industry councils and local TANF agencies will work out arrangements for referral of welfare recipients -- including those eligible for services under Welfare-to-Work Grants -- to One-Stop/Employment Service centers. Such centers offer customers choice in access to labor market information, employment services and training and related services when they are required.

Ensure Labor Protections. The grant initiative includes labor protections applicable to activities carried out under the initiative, including health and safety standards, gender non-discrimination, grievance procedures to address violations of these protections and, where applicable, federal and State employment laws.

The Department of Labor will encourage employers, service providers, and other interested parties to avoid having workers who hold low-wage jobs displaced by those who are hired from the welfare rolls. Rather, these current workers will receive help so they can acquire the skills they need to move up the career ladder and make room for job candidates who are on welfare.

Increase Flexibility. Placing the hardest-to-employ welfare recipients in jobs will require not only commitment but innovation. In many ways, the Welfare-to-Work Grants move into uncharted territory, since they attempt to serve a population that has not been the focus of many earlier welfare-to-work programs. States and localities must have the freedom to tailor service delivery as they see fit and to undertake new and innovative approaches that take account of the circumstances of recipients and their families, local labor market conditions and variations in individual aptitudes, interests and skills. Flexibility is also important as States and local communities explore ways to identify and remove barriers to work. These barriers -- such as lack of accessible and affordable quality child care and/or transportation and problems like domestic violence, substance abuse and mental and physical disability -- must be addressed if recipients are to find jobs.

Demand Performance. There should be clear accountability for States, localities, service providers and welfare clients. Taxpayers should receive an appropriate return on the federal investment in Welfare-to-Work activities. This requires that all levels of the system be held accountable for results and integrity of funds.

The Department of Labor plans to develop specific performance measures, after consulting with States, localities, and other interested parties such as the American Public Welfare Association, as well as the Department of Health and Human Services. However, the Department of Labor

is committed to the early development and refinement of performance indicators and an accompanying reporting system.

The Department of Labor will work with the Department of Health and Human Services to expand the TANF data reporting requirements to incorporate those items required by the welfare-to-work grants. Private Industry Councils may choose to use JTPA's current Standardized Program Information Report (SPIR) system, which will be modified to identify welfare-to-work enrollees and their activities and relevant outcomes to meet the welfare-to-work reporting requirements. Data from this management information system will enable all levels of the welfare-to-work system -- local, State and federal -- to set performance targets, track program progress and assess results.

Build on What Works. States, localities and service providers should take advantage of demonstration experience and the research and evaluation findings available on how to serve this target group.

Programs that have been shown to be effective in serving welfare recipients include the California GAIN Program sites in Riverside and Butte Counties, the Center for Employment Training (CET) and On-the-Job Training (OJT) program of the Job Training Partnership Act (JTPA). In both Riverside's welfare-to-work program and JTPA's OJT, the emphasis is on getting enrollees into the labor market as quickly as possible. Although the CET program provides basic skills and vocational training, the priority in the CET program is to place enrollees in private sector jobs. Butte County emphasizes case management in its GAIN program, and case management could be added to the Riverside, CET and OJT approaches to strengthen them. In addition, preliminary results from the National Evaluation of Welfare-to-Work Strategies indicate that initial job search followed by short-training or education for those who do not find jobs produce substantial employment and earnings gains and reductions in welfare use.

Program operators may have to use extensive case management to help enrollees overcome barriers to sustained employment and problems that occur on the job. For example, STRIVE (identified by the General Accounting Office as a highly regarded local program) emphasizes attitudinal training and provides follow-up for up to two years after job placement. This follow-up involves contacts with both former participants and employers to discuss experiences, assess job performance and resolve problems. Service providers should also consider the use of part-time jobs to help such persons make a gradual transition to the workforce.

Welfare-to-work activities should encourage recipients -- especially those with some labor market experience -- to strive for employment at wages that ensure the achievement of self-sufficiency. One of the key reasons for CET's success is that it trains and places people in occupations that are a step or two above minimum wage jobs.

Comprehensive local planning is essential to the effective coordination of JTPA, TANF and related programs in the welfare-to-work effort. There are many promising models for moving welfare recipients into employment. Three examples are:

- o Delaware has merged both workforce and welfare services into one department. It has developed a plan to add job-retention services to its welfare-to-work program, with the goal of helping welfare recipients stay employed and move from part-time to full-time employment. Delaware also provides an array of substance abuse, job development and crisis management services to aid welfare recipients moving toward self-sufficiency.
- o Michigan's welfare program requires job search followed by intensive assessment for those welfare recipients who cannot find jobs. Employability classes are run by placement agencies and are also incorporated into all training curricula. In Michigan, local workforce development boards are responsible for all the workforce development activity in their geographic areas. Michigan also contracts with faith-based and community-based organizations to provide mentoring services for TANF recipients.
- o In Baltimore, Maryland, welfare recipients are served at One-Stop Centers, such as the one at Modawin Mall, operated by the Urban League. At such centers, welfare recipients and other clients are provided electronic labor market information through Maryland's CAREERNET, and with job search and placement assistance and related services.

IV. SPECIFICS OF THE WELFARE-TO-WORK GRANTS

The goal is not only to create good jobs for people who are the hardest-to-place, but to provided needed services for retention and advancement.

Secretary of Labor Alexis Herman

The key features of the Welfare-to-Work grants are:

Funding -- \$3 billion in mandatory funding has been committed to this initiative: \$1.5 billion in fiscal year 1998 and \$1.5 billion in fiscal year 1999. There are three kinds of grants: formula grants, competitive grants, and Indian grants.

- o **Formula Grants** -- Nearly 75 percent of the funds would be allocated to States, based on a formula that equally considers each State's shares of the national number of people in poverty and adult recipients of assistance under TANF. States would be required to pass through 85 percent of the money to local private industry councils, and they can retain up to 15 percent of the money for Welfare-to-Work projects of the State's choice. States are required to provide a match of \$1 in State funds for every \$2 in federal funds.

With respect to within-State allocations, at least half of the funds must be distributed based on the service delivery area's population in high-poverty areas (7.5 percent share or more), and not more than half of the funds may be distributed based on two additional factors at the discretion of the Governor: the number of adults receiving TANF assistance for 30 months or more and the number of unemployed in the service delivery area.

- o *Competitive Grants* -- Nearly 25 percent of the grant funds would be used for competitive grants. Grants would be awarded to local governments, private industry councils and private entities (such as community development corporations; community action agencies and community-based and other private organizations of demonstrated effectiveness) who are applying in conjunction with a private industry council or local government. The Secretary of Labor will give special consideration to cities with large concentrations of poverty, as well as to rural areas.

In making decisions about whether to approve particular applications, the Secretary is to consider such factors as: (1) the effectiveness of proposed projects in moving recipients under TANF into unsubsidized employment or expanding the base of knowledge about how to do so; (2) demonstrated success in moving individuals with multiple barriers into work; (3) evidence of the applicant's ability to leverage private, State, and local resources; and (4) the applicant's plans to coordinate with other organizations at the State and local levels.

- o *Indian Grants* -- One percent of the \$3 billion is set aside for grants to "welfare-to-work" Indian tribes. These are tribes that submit a plan for the administration of a welfare-to-work grant that the Secretary of Labor determines meets statutory requirements. Indian tribes are not required to provide a cash match.

Use of Funds -- Both noncompetitive and competitive grant funds are to be used to move recipients from welfare dependency into lasting, unsubsidized jobs. Grantees can use funds for job creation through public or private sector wage subsidies; on-the-job training; contracts with public or private providers of job-readiness, job-placement and post-placement services (such as the One-Stop/Employment Service or private job-placement intermediaries); job vouchers for similar services; community service or work experience; or job retention and supportive services (if they are not otherwise available). Post-placement services may include skills upgrading necessary to enable individuals to retain and progress in a job.

Eligibility -- At least 70 percent of grant funds are to be spent on recipients who face multiple labor market deficiencies -- such as school dropouts, substance abuse, and poor work history -- and who are long-term welfare recipients (30 months or more) or who face termination from TANF within 12 months. Recipients also can be non-custodial parents of minors whose custodial parent meets these criteria. The remaining funds can be spent on "recent" TANF recipients, or noncustodial parents, who have characteristics associated with long-term welfare dependence -- such as dropping out of school, teen pregnancy or poor work history.

Performance Bonuses -- States who meet the test of delivering quality services that exceed performance measures may qualify for performance bonuses in fiscal year 2000, based on a formula for measuring performance that will be developed by the Secretary of Labor in consultation with the Secretary of Health and Human Services and other organizations. Factors to be taken into account include job placement, duration of placement and any increase in earnings.

Evaluation -- The Secretary of Health and Human Services, in consultation with the Secretaries of Labor and Housing and Urban Development, will develop a plan to evaluate the Welfare-to-Work grants. The Department of Health and Human Services intends to use the following measures, as recommended in the statute: placements in the labor force that last for six months, placements in the private and public sectors, earnings of individuals who obtain employment and average expenditures per placement. States must agree to cooperate with the Department of Health and Human Services in data collection.

Administration -- To receive formula funds, the State must submit a plan for the administration of the welfare-to-work grant that the Secretary of Labor determines meets statutory requirements. Governors are responsible for administering formula funds and for assuring that these funds are coordinated with funds spent under the TANF block grant.

At the local level, the grants will be administered by private industry councils in coordination with chief elected officials, which is how local workforce development funds under JTPA are administered. The Secretary of Labor may approve a Governor's request to use an alternative administering agency, after determining that the alternative would improve the effectiveness or efficiency of program administration.

The Secretary of Labor will allocate formula funds, award grants, ensure that funds are expended in accordance with the purposes of the initiative to achieve desired outcomes, and provide technical assistance by identifying and sharing information about promising approaches and practices and by helping State and local community stakeholders build the necessary partnerships to make this grant initiative work. In doing so, the Secretary of Labor will consult with the Secretaries of Health and Human Services, Housing and Urban Development and Transportation.

V. OTHER ELEMENTS OF THE WELFARE-TO-WORK AGENDA

In this land of opportunity, opportunity must be available to all. That is why we must help people move from welfare to work, because a paycheck is the surest passport to dignity.

Secretary of Labor Alexis Herman

The President's agenda to help welfare recipients work is well under way. The Welfare-to-Work Grants will support and complement several other measures that serve welfare recipients:

- o The *Personal Responsibility and Work Opportunity Reconciliation Act* requires States to put an increasing percentage of their welfare caseloads to work each year (25 percent in Fiscal Year 1998 rising to 50 percent in the year 2000). States can use their block grant funds in a wide range of activities to meet that goal. In the past year the Clinton Administration has taken numerous steps to ensure the success of the law, including providing assistance to States and communities in implementing the law, mobilizing the business community to hire welfare recipients; working with civic, faith-based and non-profit groups to mentor families leaving welfare for work; and hiring a fair share of welfare recipients in the Federal government.
- o The *One-Stop Career Center system/Employment Service* provides welfare recipients with job-finding assistance (over 600,000 annually). Under a "work first" approach, the One-Stop/Employment Service is the primary agency to which welfare recipients can turn for job-finding assistance.
- o *Job Training for Low-Income Adults* Title IIA of JTPA helps many welfare recipients get the training they need to become economically self-sufficient. About 42 percent of those leaving the program are welfare recipients and 58 percent of these get jobs when they leave the program. 61 percent of welfare recipients who get jobs when they leave the program also receive fringe benefits, and 55 percent are employed 13 weeks later. Wages and earnings for welfare recipients have risen steadily under the program to an average of \$7.05 per hour. On average they work 36 hours a week.

The Secretary can waive statutory and regulatory requirements in JTPA to make it possible for States and localities to improve their performance at helping place welfare recipients in jobs, ensure longer job-retention and facilitate their progress up career ladders. For example, Oregon received a waiver to support its "work first" approach by extending the availability of services so that after placement in a job, a welfare recipient can receive the help necessary to enable them to keep the job.

- o A new, enhanced *Work Opportunity Tax Credit* offers employers a federal tax credit of up to 35 percent of the first \$10,000 in wages paid to certain long-term welfare recipients during the first year of employment and 50 percent of the first \$10,000 in the second year. The credit is an important tool in the effort to encourage the placement and retention of welfare recipients.
- o The *Earned Income Tax Credit* supplements the wages of qualified individuals by means of a refundable tax credit, encouraging low-wage workers to seek and maintain employment.
- o *Tax incentives* to increase investment in poor communities are available through Empowerment Zones (EZs) and Enterprise Communities (ECs). Congress recently agreed to the President's proposal to expand the number of EZs by 22. This will mean a total of 33 EZs and 94 ECs.

- o *Education incentives* to open the doors to college and other learning institutions for every person, particularly those of low and middle income, by helping families pay for postsecondary education and training. The HOPE Scholarships, Pell grants, and Work Study along with employer tax credits for training their employees, can help make education and training more available to current and former welfare recipients.

November 3, 1997

CONSULTATION ON WELFARE TO WORK COMPETITIVE GRANTS

BACKGROUND

The Welfare to Work (WtW) grants program authorized by the Balanced Budget Act of 1997 includes both formula grants to states and localities, and competitive grants to local communities. These grants are intended to help support achievement of the welfare reform goals that are imbedded in the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. Under the PRWORA, welfare recipients are expected to engage in work activities to move from welfare assistance to permanent employment.

Providing the tools to help welfare recipients successfully make this transition is the purpose of the WtW grants. According to the Act, applications for competitive grant projects should achieve one or more of the following objectives:

- Expanding the base of knowledge about programs to move the least job-ready TANF participants into unsubsidized employment;
- Moving TANF participants who are least job ready into unsubsidized employment;
- Moving the least job-ready TANF participants into unsubsidized employment, even in labor markets with a shortage of low-skill jobs.

In making competitive grant awards, the Secretary will consider the needs of rural areas and cities with large concentrations of residents with incomes below the poverty level.

PURPOSE

The purpose of this document is to solicit ideas and suggestions on how to best structure the competitive grant process to achieve these objectives. The degree of flexibility in structuring the process is constrained by the following legislative provisions:

- The Act identifies certain eligible applicants for competitive grant funds, including:
 - The private industry council (PIC) for a service delivery area;
 - The political subdivisions of a state; and
 - Private entities including nonprofit organizations such as community-based organizations, community development corporations, disability community organizations, community action agencies, faith-based organizations, colleges and universities and other qualified private organizations.

Eligible private entities must submit an application in conjunction with the applicable PIC or political subdivision. The term "in conjunction with" means that the application submitted by a private entity must include a signed certification by both the applicant and either the applicable PIC or political subdivision that the applicant has consulted with the PIC/political subdivision in developing the proposal; and that the activities proposed are consistent with, and will be coordinated with, the WtW and TANF activities of the PIC/political subdivision. If such a certification cannot be obtained from the PIC or political subdivision, the applicant will have to include information describing the efforts undertaken to consult with the PIC/political subdivision and indicating that there was sufficient opportunity for review and comment (at least 30 days).

All applicants, including PICs and political subdivisions, will be required to consult with the State regarding the application or submit information indicating that the State has been provided a sufficient opportunity for review and comment (at least 15 days).

- The use of competitive grant funds is limited to the allowable activities identified in the Act and further defined in the regulations. In general, these activities include community service or work experience programs; job creation through public or private sector employment wage subsidies; on-the-job training; contracts with providers of job readiness, placement and post-employment services; job vouchers for job readiness, placement, and post-employment services; and job retention or support services if such services are not otherwise available.
- Competitive grants are subject to the same statutory targeting provisions as formula grants. At least 70% of grant funds must be spent for the benefit of recipients who are hardest to employ due to severe employment barriers and significant welfare tenure (e.g., 30 months or more). No more than 30% of grant funds may be expended for the benefit of recipients with characteristics associated with long-term welfare dependence such as school dropout, teen pregnancy and poor work history. Noncustodial parents related to eligible recipients are also eligible.

Although competitive grants do not have a matching requirement, there is an expectation that competitive grants will be used to leverage other resources and to develop a sustainable capacity in the local community to provide effective transitional employment services leading to permanent unsubsidized employment and self-sufficiency. For instance, moving welfare recipients toward independence and work will depend on harnessing the complementary strengths and resources of both the welfare system -- with its knowledge of service needs and resources -- and the workforce system-- with its ties to the business community and labor markets.

Within this context, the following section identifies some key issues for further discussion.

STRUCTURING THE COMPETITIVE GRANT PROCESS

1. **What priorities and emphases should be given to the use of competitive grant funds?**

Since many challenges face welfare beneficiaries with the greatest difficulty moving to permanent unsubsidized employment, a wide range of funding priorities frequently is cited, such as development of responsive transportation and child care service systems; use of integrated work and learning strategies to develop skills; creation of jobs that provide maximum flexibility to meet work and family needs (as well as income levels for self-sufficiency); service to noncustodial parents to help them achieve the financial means to support their children; addressing disabilities; tackling substance abuse; helping women access nontraditional occupations; assisting victims of domestic violence; etc. Moreover, some have suggested that priority should be given to helping local communities integrate both funding and service systems that confront the range of challenges facing the target population.

Are these priorities appropriate? What others should be considered? What should be the relative priority or importance among specific items?

2. **How should knowledge expansion be addressed? What is the relative importance of innovation and experimentation vis a vis providing additional operational funds to areas of high need?**

The competitive grants offer an opportunity to test new models and innovative strategies. At the same time, there is an expectation that competitive grant funds will be used to support already existing programs in areas of greatest need. One approach could reserve a certain share of the competitive grant funding for experimentation or knowledge expansion -- for example, 10 percent -- thereby ensuring both learning and operational activities are supported. Alternatively, knowledge expansion could be an objective embedded in every competitive grant award. Or we could encourage or require rigorous evaluation (e.g., random assignment) in a portion of grant activities. And some have suggested that we specifically reserve a portion of funds for local projects that will actively participate in transferring learning and project replication to other communities. These are a few possible approaches, among many.

What are the best options for structuring the competitive grants? Should some funding be focused on testing new models? If so, how much is appropriate? Should we designate funds for "learning laboratories?" What approaches will best encourage replication and sustainability of best practice across communities?

3. **Should there be target goals for distribution of grant funds among specific services, geographical areas or types of service providers?**

While the statute clearly does not envision distribution of competitive grant funds on a

formula or strict geographic basis, there nonetheless is a need to ensure broad coverage of diverse approaches and locations including, for instance, both urban and rural areas. In addition, some have suggested that we ensure adequate access to funding for nongovernmental entities. One approach, therefore, could be to outline some goals or parameters for funding – for example, aiming roughly 60% of the funding at cities with large concentrations of poverty population; 30% at rural areas; and 10% at private entities such as CBOs, community development corporations, community action agencies, disability community organizations, faith-based organizations, colleges and universities and other private nonprofit or for-profit groups.

Would such an approach make sense? If so, are these divisions, which reflect the legislative history, optimal? What factors should be considered in setting target levels? How can we ensure that funds are targeted to areas with high concentrations of welfare recipients such as public housing and economic empowerment zones?

4. How should the competition be structured? Should there be any limits on individual project size and funding amount?

With two years of funding, it is important that Welfare to Work competitive grant funds be distributed as efficiently as possible. It also is essential that we fund quality proposals addressing diverse approaches. Within these constraints there is a range of options. We could conduct one single competition for each fiscal year and review all applications in totality at one point in time or we could structure smaller application cycles (e.g., four to six cycles) to get funds distributed more quickly and spread across different applicants and priorities. Related is the question of whether any limits should be imposed on program and grant size. Some have suggested capping the knowledge expansion grants at \$3 million each; and imposing a minimum on operational grants of at least 100 recipients served.

Should we impose a structure on the application cycles and grant awards? What divisions and limits make sense?

5. What criteria should be used to evaluate the competitiveness of grant applications? What information should be included in the applications to facilitate judgment?

Decisions regarding competitive grant applications must be guided by a clear set of criteria available to both the reviewers and the applicants. In addition, certain information can facilitate fair and reasoned review of grant applications. For instance, applications might not only describe proposed projects, strategies and people to be served, but also how resources would be leveraged and service systems integrated, and what outcomes would be achieved. Likewise, evaluation criteria should be designed to reflect the purpose and goals of the competitive grants, such as innovation, addressing geographic areas of need, building on proven approaches, supporting high quality efforts that really attack barriers to employment, and the replicability and sustainability of these activities beyond the funding duration. Yet as these criteria are defined it also is

important to retain sufficient flexibility to enable creative approaches and new strategies.

What criteria and information make sense in this context? How specific should we be and what particular criteria are appropriate? And how can we best ensure that grant funds will lead to a sustained capacity in the community to effectively serve recipients?

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SUBMISSION OF INFORMATION

To facilitate timely development and issuance of instructions for submitting applications for WtW competitive grants, please provide responses to the above issues by COB Friday, November 14. Responses may be faxed to:

Welfare-to-Work Implementation Task Force
Attention: Brian Deaton
(202) 219-0376

Responses may also be sent via Internet through the Department of Labor's Welfare-to-Work Home Page at wtw.doleta.gov.

If you are viewing this document on the Home Page, [click here](#) to provide your comments.

Questions regarding this request may be directed to Brian Deaton at (202)219-0181 x 146.

UNDERSTANDING THE CLINTON WELFARE BILL:

TWO YEARS AND WORK

Mark Greenberg

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Center for Law and Social Policy
Washington, DC

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UNDERSTANDING THE CLINTON WELFARE BILL: TWO YEARS AND WORK

Executive Summary

This document explains the two-year limit under The Clinton Administration's welfare bill, and highlights some key concerns.

Key Features

Under the Work and Responsibility Act, a parent who accumulated 24 months of AFDC would (with limited exceptions) be required to participate in the WORK program to receive further assistance. While many aspects of the program will be controversial, it is important to appreciate that the bill does not propose to end assistance after two years; it proposes to require and provide work after two years. Key features include:

A Gradual Phase-In Beginning with the Youngest Parents: All states would be required to phase in parents born after 1971, and could phase in other categories. The time-limit would only affect **custodial parents**, i.e., not grandparents, aunts, uncles, etc.

A Twenty-Four Month Clock: Phased-in individuals would face a 24-month clock before being required to participate in WORK. The clock would be based on months of AFDC (and months under sanction) **after** the individual turned 18. The clock would not run during a month if the individual met the **minimum work standard**, defined as working in unsubsidized employment at least 20 hours at week (or at state option, 30 hours). The clock also would not run during a month if the individual was not subject to JOBS requirements because she was **deferred**. Deferral categories would be narrower than current-law exemptions. In particular, a custodial parent would qualify for deferral if she had a child under age one (but if the child was conceived during AFDC receipt, only a twelve-week deferral period would be allowed). In addition to the specified deferral categories, the state could place up to 5% (increasing to 10% after FY 99) of the phased-in group in deferral status for other reasons, e.g., for "good cause." The state would suffer a fiscal penalty if it exceeded its cap.

States would be **required** to grant **extensions** under limited circumstances, and **permitted** to grant extensions in other cases. However, a state would suffer a fiscal penalty if extensions (other than for individuals receiving services under the Individuals with Disabilities Education Act or in structured learning programs) exceeded 10% of those to whom a time limit applies and who are required to participate.

The twenty-four month clock would be a cumulative lifetime clock, but there would be a limited ability to **earn-back** additional months. If an individual left AFDC with more than 18 months counting against the 24-month clock, the number would be reduced by one month for every four months in which the individual did not receive AFDC or participate in WORK. However, the months on the clock for such a person would never fall below 18.

JOBS Rules Changes: JOBS rules changes would include the use of a narrow set of deferrals (described above) instead of exemptions; eliminating current-law targeting requirements; a requirement to impose up-front job search requirements on all individuals subject to JOBS requirements who either have non-negligible work experience or have a high school diploma or equivalent; and other expansions of job search requirements.

JOBS funding, now scheduled to reach \$1.3 billion in FY 95, would increase to \$1.9 billion in FY 99. The match rate would gradually rise so that in FY 2000, state JOBS expenditures would be matched at the higher of 70% or the state's Medicaid match rate (FMAP) plus ten percentage points; this new match rate would be called the **enhanced FMAP** and would also apply to AFDC Child Care, Transitional Child Care, and At-Risk Child Care. A state would be rewarded if its JOBS participation rate exceeded 55% and penalized if the rate fell below 45%. The penalty would involve a 25% reduction in federal participation in the cost of the number of cases by which the state fell below the required level.

WORK Positions for those who Reach the 24-Month Point: The state would have a duty to create WORK positions for those who reached the 24-month point. The state could draw down open-ended federal funding at the Medicaid match rate for WORK wages, and could draw down its share of a federally capped amount at the enhanced FMAP for other WORK costs. The WORK capped entitlement would reach \$1.1 billion in FY 2000. With WORK funds, a state would be expected to locate and create temporary employment positions with for-profit, non-profit, and public employers. A state would be penalized if it did not meet a "WORK participation standard." This would be satisfied if the state either generated the number of WORK assignments established by HHS or met an 80% participation standard.

In WORK, the state would have a duty to pay the higher of state or federal minimum wage or "the rate paid to employees of the same employer performing the same type of work and having similar employment tenure with such employer." The state would set the number of WORK hours between 15 and 35 hours a week. WORK wages might or might not make the family ineligible for AFDC. The state would have a duty to ensure that if the individual participated the full number of required hours, the family would not have less income than if it were receiving AFDC with no other income. This amount would be calculated with a disregard of \$120 for work-related expenses (the basic disregard for work-related expenses under the bill). The following provisions would apply to WORK participants:

- **Medicaid:** WORK participants would qualify for Medicaid whether or not they continued to receive AFDC.
- **AFDC Earnings Rules:** For working AFDC recipients, the state would be required to disregard \$120 of earnings and could choose to disregard more. If the state opted to disregard more than \$120 for working AFDC recipients, the state could choose whether to apply that same disregard to WORK participants.

- **Child Care and Transportation:** WORK participants would qualify for child care and for work-related supportive services necessary for participation; however, this would not include transportation costs, which are intended to be covered by the \$120 disregard.
- **Pay-for-performance:** If a WORK participant did not work the required hours, the family's AFDC grant would not be adjusted to reflect the reduced earnings. However, if the employer provided paid leave for similarly situated employees for illness or other reasons, the employer would be required to provide the same paid leave to a WORK participant. Also, HHS would issue regulations specifying a minimum number of hours for WORK leave due to illness or other specified reasons; if the employer's leave policy were less extensive, the WORK policy would govern.
- **Earned Income Tax Credit and Unemployment Insurance:** WORK wages would not qualify for the Earned Income Tax Credit, and WORK employment would not count as employment for purposes of unemployment insurance.

After every second completed assignment (or after two years), the state would be required to conduct a comprehensive assessment of the individual. Based on the assessment, the state could reassign the individual to deferral status, to JOBS, to another WORK position, or to intensive job search supervised by a job developer. If the individual failed without good cause to apply for appropriate openings, cooperate with the job developer or employer, or refused a job without good cause, the individual and her family would be ineligible for AFDC or WORK for a six month period.

Penalties: Penalties for program violations would be more severe than current law. If an individual required to participate in JOBS refused without good cause to accept employment of 20 or more hours per week (or a higher amount if the state uses a higher minimum work standard), then the individual's family would be ineligible for aid for six months or (if earlier) until the individual accepted employment. In addition, penalties for violating WORK requirements would escalate from a 50% reduction in AFDC for one month for the first failure, to a 50% reduction for three months for the second failure, to full elimination of the grant for three months for the third failure, to full elimination of the grant for six months for any subsequent failures.

Preliminary Observations

The changes proposed by the Administration are profound; whatever one thinks of their wisdom, the structure can hardly be called "tinkering." Some commenters have minimized the significance of the bill by emphasizing the limited numbers of persons affected in the first few years. As should be evident, the bill would fundamentally alter the nature of AFDC. If projections are accurate, the WORK Program in FY 2000 would involve 394,000 people, with steady increases after that time. By comparison, in the current JOBS Program, in an average month in FY 92, there were 2417 people working in jobs with subsidized wages; even adding those in unpaid work experience positions, the total in some form of subsidized work activity was not more than 27,549.

The Administration's approach seeks nationwide implementation of an idea that has never been tested. Very little is known about whether states are capable of implementing the basic approach or how it would work if implemented. Nationwide implementation would take an enormous gamble with the lives of millions of poor families. Because there has been so much talk about two-year-limits in the last several years, it is sometimes forgotten that no state has ever implemented one. There is literally no experience with anything remotely like the proposed approach. It is not known whether states are capable of implementing the basic design or how implementation would affect families in need of aid. There is reason to believe that a very large group of families would reach the two-year point. Could states create enough jobs for these families? Could they do it without displacing other workers or driving down wages for other low-wage workers? If states were successful in generating the needed jobs, what would the likely effects be? The available research on unpaid work experience programs in the past suggests that such programs have had little or no impact on employment or earnings. The design differs from traditional workfare, but there is no research base from which to estimate its likely effects. The bill also provides for much greater penalties for those who fail to comply. Penalties of this magnitude have never been tested. In many respects, nationwide implementation of the bill would involve taking an expensive and potentially dangerous risk.

Some form of phase-in would clearly be needed; however, there are major concerns about the potential impact of beginning with the youngest parents. Generating work positions costs money. Other bills rely on deeper cuts in other low-income programs, and particularly on much deeper cuts in assistance to legal immigrants. The bill also provides a more generous match rate to states, which may be more realistic about state fiscal capacity, but has the effect of buying fewer WORK slots for each federal dollar. The bill also is committed to paying at least the minimum wage, which also constrains the number of slots. Finally, involving the entire AFDC population would overwhelm the ability of states to administer the program: there are currently five million families receiving AFDC, and it is estimated that three million would be affected by the 2-year limit. Some form of gradual phase-in seems essential.

While some form of phase-in is needed, there are serious questions about the wisdom of phasing in the youngest families first:

- It will require states to focus primarily on parents with very young children. More families will need child care, child care will be more expensive, and there are serious concerns about the supply and quality of child care for very young children.
- There is no evidence that states will be able to run very successful employment programs for the youngest AFDC parents. Recently evaluated programs (the JTPA evaluation, the JOBSTART evaluation, the New Chance Demonstration, the Teen Parent Demonstration) have been successful in raising participation rates, but have had modest or no impact on raising employment and earnings for youth.

- The focus on youth has the effect of shifting resources away from the JOBS Program for adults. The youth focus may result in a shifting of resources from programs of demonstrated effectiveness to a major gamble on programs for youth where there is no evidence that states will be able to operate programs of comparable effectiveness.

This bill does not assure access to two years of education and training. To the contrary, for many, the impact of a two-year limit before WORK will be a curtailment of access to education and training programs. The President's welfare campaign pledge promised to "Empower people with the education, training, and child care they need for up to two years, so they can break the cycle of dependency" before imposing a community service work requirement. While the bill expands the JOBS Program, it falls far short of any commitment to empower people with needed education and training. The bill has been drafted so that individuals would not have a right to needed education or training. Based on the language defining the purpose of an employability plan, an individual wanting to get training for a family-supporting job would have difficulty justifying participation in training if she had the capacity to earn the minimum wage.

Several aspects of the bill are likely to discourage states from providing longer-term education and training. The defined purpose of the employability plan seems to send a signal that access to longer-term programs is not encouraged. All states would be required to impose up-front job search requirements for those with non-negligible work histories. States fearful of fiscal penalties are likely to be hesitant to approve programs that increase the likelihood that an individual will need an extension. And, the restrictive nature of the bill's earn-back provision would mean that an individual who had accumulated 18 months of clock-time could never qualify for more than a six month education/training program unless an extension were granted. Since many families eventually accumulate 24 months over two or more spells of AFDC receipt, it seems inevitable that the basic focus of employability planning for many participants will shift from "what makes sense for this person" to "how many months are left on the clock."

In summary, the bill has been drafted so that individuals do not have a right to (and have little basis to make a claim for) access to education or training; the structure is one which will likely discourage states from providing such access; and even if a state wishes to provide such access, the dynamics of AFDC receipt and restrictive extension and earn-back rules will make it more difficult to do so.

While the bill recognize the need for "good cause" deferrals and extensions, the specific approach taken is extremely troubling; it seems to invite arbitrariness in program administration and denial of justified requests for deferrals and extensions. On both good cause deferrals and extensions, the bill penalizes states for exceeding a set percentage. States are likely to be incapable of operationalizing a percentage cap in a non-arbitrary way. An agency worker can attempt to fairly apply a set of criteria, but cannot fairly apply a concept like 5%. Should each worker ensure that no more than 5% of their cases are in good cause status? Should workers seek to minimize good cause findings on the premise that other workers might not? Should a worker deny good cause status to Ms. Jones today because it was granted to Ms. Smith yesterday? The cap on extensions presents many of the same problems.

Overall, the structure is one that seems likely to make states fearful of granting deferrals and extensions in appropriate cases.

The work-for-wages structure of the WORK Program has the virtue of making the positions more like a job than traditional "workfare". The structure will reduce the poverty of some families but increase the poverty of others. WORK assignments would have some characteristics of real jobs (payment of wages, subject to FICA requirements, entitlement to same benefits as similarly situated workers) but not others (e.g., qualifying for the Earned Income Credit or unemployment insurance).

The WORK structure would reduce the poverty of some participants and increase the poverty of others. In general, a WORK participant could be financially better off than under current law if she was able to work all scheduled hours and her actual work expenses were less than \$120 a month, or if the state provided more hours or better treatment of earnings. However, if a state only met its minimum obligation, an individual who could not maintain perfect attendance or who had higher work expenses would be **poorer** than under current law. If the parent was unable to maintain perfect attendance - because of transportation or child care breakdowns, the illness of a child, sickness not covered by sick leave policies, or any other reason - the family would have less income than the AFDC floor.

Overall, it appears that WORK could have no net effect of reducing poverty, and might even result in a net increase in poverty for affected families.

The denial of the Earned Income Tax Credit to WORK participants ensures that participating families will be left in poverty. The WORK Program has been designed to be less attractive than unsubsidized minimum wage work. Accordingly, the decision was made to deny WORK participants eligibility for the earned income tax credit. Until now, the EITC has been viewed as the centerpiece of the Administration's effort to reduce poverty for working families. However, under this design, hundreds of thousands of poor working families would be denied access to the EITC.

The denial of the EITC is particularly distressing when coupled with the state option to deny WORK participants all earnings disregards after the \$120 work-expense deduction. There are two principal ways in which government can reduce the poverty of working poor families: the Earned Income Tax Credit and the AFDC earnings disregards. The bill would create a class of working poor families who were denied both of these crucial supports.

The bill's penalty structure risks increasing homelessness and family break-up among poor families. Any welfare reform bill relying on a penalty structure must seek to strike a balance between the goal of promoting work and the goal of protecting the well-being of children. It is not possible to design a penalty that just affects the parent. Programs often seek to design a sanction structure with penalties substantial enough to "get the participant's attention" and hopefully affect behavior, but without putting the family at risk of eviction or other serious crisis. Unfortunately, the Administration appears to have lost sight of this principle. The bill provides for 50% and 100% whole-family-sanction penalties. Penalties for

failure to accept employment or failure to adequately cooperate with a job developer will involve loss of all assistance for a six-month period. There is no research basis for concluding that penalties of this magnitude are needed or would be constructive. The sanction approach offers the virtue of toughness, but has no other virtue.

The bill's reward and penalty structure for states creates a set of powerful incentives to encourage states to sanction individuals when there are disputes about program participation. At the same time, a penalty structure which depends on cutting federal match for AFDC benefits could encourage further reductions in AFDC assistance to poor families. Under the bill, state must meet JOBS and WORK participation standards to avoid fiscal penalties. In both standards, individuals would count toward the standard either by participating or by being in sanction status. In practice, this would mean that the least expensive way to maximize a participation rate would be to increase the number of sanctions. This is not suggesting that states will intentionally seek to sanction when there is no basis for doing so. Rather, in day-to-day welfare administration, there are many instances of technical and not-so-technical program violations, and states must decide how much effort to invest in determining the facts and seeking to resolve the problem. In the proposed structure, the incentive to sanction would be substantial. There may also be a strong direct fiscal incentive to sanction. Considering the costs of a WORK slot and the cost of AFDC benefits, it is possible that in the median state, imposing a six month sanction could be as much as \$5000 cheaper than providing assistance and a WORK slot for that period.

Under the bill, all fiscal penalties - for exceeding good cause and extension caps, or for failure to meet JOBS or WORK participation standards - would involve a 25% reduction in federal match for the cost of AFDC benefits for the number of cases by which the state failed to meet the applicable standard. Taken as a whole, the bill would improve the match for JOBS, for work activities, and for child care, but would actually create a risk of reduced match for basic cash assistance because each penalty would raise the cost of AFDC. Moreover, reducing the federal match does not affect all states equally. The poorest states have the highest Medicaid match rates, so a 25% reduction in match rate has a higher proportional effect on them. Among states with equal or roughly equal Medicaid match rates, the penalties would be imposed more severely on those which pay higher AFDC benefits, since reduced federal match has a greater effect when benefits are higher.

If a state faces a substantial penalty in AFDC costs, the response may be to find ways to reduce AFDC costs, i.e., reduce benefits even further. It is one thing to come forward with a welfare reform plan which does nothing to raise basic benefits; it is another to come forward with a plan that may generate incentives to reduce basic assistance.

Ultimately, the welfare reform debate in Congress may come down to a question of "compared to what?" There are many reasons to believe that uniform national application of a "two years and work" model is unwise. However, if Congress opts for such an approach, it will be crucial to focus on the differences between the plans. While the Administration's bill has serious deficiencies, there are also major respects in which it is superior to other "two years and work" models pending before Congress. There are serious

questions about the wisdom of the Administration's basic approach. No state has ever implemented the "two years and work" model and there is considerable reason to question the capacity of states to do so. If states were successful in meeting the requirements of the bill, the effect could be an expanded welfare bureaucracy, reduced access to education and training, and the operation of a WORK Program that could have the overall effect of increasing poverty. The decision to seek nationwide implementation of an idea that has never been tested is a political judgment that cannot be justified on policy grounds.

This is a crucial time to step back and ask whether nationwide implementation of the "two years and work" model makes sense. A set of small demonstrations has already been approved through the waiver process. For the country as a whole, alternative welfare reform approaches may offer a better way to promote work without imposing needless rigidity and bureaucracy, without so drastically curtailing state flexibility, and without risking an unraveling of the basic safety net for poor families with children.

At the same time, it is also important to distinguish among the pending "two years and work" bills. Among the "two years and work" bills, it is clear that the Work and Responsibility Act reflects a great deal of thought about how to design a system which preserves the JOBS structure, provides jobs so long as individuals meet program requirements, and reflects a commitment to paying those who work at least the minimum wage. While the good cause and extension provisions are deficient, at least this bill contains good cause and extension provisions. While the approach will restrict access to education in the JOBS Program, at least it preserves a state duty to provide education in the JOBS Program. While the WORK Program leaves its participants in poverty, at least the bill provides for payment of the minimum wage - the principal Republican alternatives simply require individuals to work 35 hours a week in return for their current AFDC grant level.

Some of the most troubling features of the bill - e.g., the sanction structure, the restrictive deferral and extension provisions, the denial of the EITC and potential denial of earnings disregard to WORK participants, the reward and penalty structure for states - could be modified during the legislative process. While other concerns would remain, such improvements could address some of the ways in which the bill seems most likely to harm affected families.

In the months to come, there are two separate discussions that need to occur: one involves the wisdom of national implementation of the "two years and work" model as compared with other approaches to welfare reform. The second involves comparing the pros and cons of the alternative "two years and work" models, acknowledging the important differences, and exploring how to address the most serious deficiencies in the Administration's bill. The details between the approaches vary tremendously, and the debate is only beginning.

UNDERSTANDING THE CLINTON WELFARE BILL: TWO YEARS AND WORK

Introduction

Many aspects of the Clinton Administration's welfare reform legislation would affect low income people: the Work and Responsibility Act would initiate a set of dramatic changes affecting child support, child care, employment and training, teen parents, AFDC eligibility rules, and assistance to immigrants, among others. Much public attention, however, has understandably focused on one feature of the legislation: the two-year limit. This document explains what the legislation proposes as to the two-year limit, and highlights some key concerns. Subsequent CLASP documents will discuss these and other aspects of the plan in more detail.

Under the bill, a parent who accumulated 24 months of AFDC would (with limited exceptions) be required to participate in the WORK Program. Depending on state choices, a parent participating in the WORK Program could have income so low that her family would still qualify for AFDC to supplement her WORK wages. While there will be controversies about many aspects of the program, it is important to appreciate that this is not a plan to end assistance after two years; it is a plan to require and provide work after two years.

Key features of program design include:

- a gradual phase-in, beginning with the youngest families receiving assistance;
- a twenty-four month clock, which would be used to determine when phased-in parents would be required to participate in WORK;
- a set of rule changes intended to make JOBS focus more strongly on immediate job entry;
- a requirement that states must develop or create WORK positions for families that reach the 24-month point;
- a set of rules for the WORK Program that require payment of at least the minimum wage but not the Earned Income Tax Credit, and which provide WORK participants some, but not all, of the rights of other workers;
- revisions in procedural safeguards and set of penalties for rule violations that are more severe than current law.

The first part of this document explains the rules relating to "two years and work." The plan itself is extremely detailed, and this summary does not include many details. The second part outlines some key issues and concerns. An appendix provides additional information on issues of state match rates, funding levels, and participation rate calculations.

A gradual phase-in

Under the bill, a major distinction is made between the "phased-in group" and the "not-phased-in group." To be "phased-in" means that an individual is in the group subject to the two-year limit before required WORK participation.

All states would be required to begin phasing in families by October 1, 1995, unless the state petitioned for and received a one year delay based on circumstances beyond the state's control. After beginning implementation, a state would have two years to reach state-wide implementation.

Under the bill, states would be required to phase in some people, and could choose whether to phase in others:

- All states would be **required** to begin phasing in young parents, i.e., parents born after 1971.¹
- States **could** choose to phase in other categories of recipients, based on date of birth, date of application, or another reasonable basis, in addition to (but not instead of) those born after 1971.
- States also **could** choose to impose the time-limits on individuals in the not-phased-in group who volunteered to participate in the JOBS program. The state could choose to impose the time-limit on a volunteer in the not-phased-in group even if the state could not otherwise require JOBS participation from her, e.g., because she was the parent of an infant.

The time-limit would only affect **custodial parents**, i.e., not grandparents, aunts, uncles, etc. Being in the phased-in group would not necessarily mean that an individual's 24 month clock was running. There are a set of rules (discussed in the next section) which govern whether a month of AFDC receipt would "count" as a month against the 24 month clock. For example, an individual born after 1971 might have a physical disability which precluded JOBS participation; if so, she would still be in the phased-in group, but not subject to time limits during the disability period.

Initially, about 1/3 of AFDC families would be affected as members of the federally mandated phase-in group - 31.5% of female adult AFDC recipients are under age 25.

¹ In two parent families, both parents would be phased-in if either parent was born after 1971. Once a member of a two-parent family had phased-in status, that status would remain even if the parents subsequently stopped living together. However, the 24 month limit rules would not apply in those states which already time-limit AFDC-UP benefits. (States which did not operate an AFDC-UP program at the time the Family Support Act was enacted are allowed the option to deny assistance to a family which has received AFDC-UP benefits in at least six of the preceding twelve months).

For those not in the phased-in group, the following rules would apply:

- There would not be a basic JOBS participation rate for the not-phased-in group, although the current-law AFDC-UP work participation rates would be retained and would apply to those in and out of the phased-in group.
- Individuals not in phased-in categories could choose to volunteer for JOBS, and the state would have a duty to allow volunteers to enter JOBS so long as federal JOBS funding was available within the state's capped entitlement. However, the state could choose to subject these volunteers to the time-limit. Accordingly, for those not in the federally-mandated phased-in group, the state would have a number of choices: add some or all to the phased-in group; require some or all to participate in JOBS without being subject to the time-limit; provide that volunteers were subject to the time limit; provide that volunteers were not subject to the time limit. The state could do a mix of these, with different rules for different groups. Ultimately, however, the extent of resources would likely affect a state's treatment of the not-phased-in group.
- A child care guarantee would still apply to those wanting child care to participate in self-initiated education and training activities, though with different procedures than under current law. As noted above, the state would have a duty to permit JOBS participation so long as funding was available within the state's capped entitlement. After JOBS funding was no longer available, the state would have a duty to consider requests for approval of self-initiated education and training for purposes of providing child care assistance. In considering these requests, the state would be required to apply the criteria generally applicable to approval of such activities under the state's JOBS Program.

A Twenty-Four Month Clock

Those in the phased-in group would face a 24 month clock before being required to participate in the WORK Program. The clock would be based on months of AFDC receipt by a custodial parent (and months under sanction) **after** the individual turned 18. For new applicants, the 24 months would run from the month of AFDC authorization; for current recipients, the 24 months would begin no later than the point of the individual's next eligibility redetermination.

Generally, there are four concepts that help one understand how the "clock" would work: the minimum work standard, deferrals, extensions, and the earn-back.

Minimum Work Standard: The clock would not run during a month of AFDC if the individual met the **minimum work standard**, defined as working in unsubsidized employment at least 20 hours at week (or at state option, 30 hours).²

² In an AFDC-UP family, if both parents were subject to the time limit, the month would not count against either parent if the total average number of hours per week worked by both parents exceeded 30 hours, or such larger number determined by the state (but not larger than 40 hours). For example, if Mr. Smith worked 18 hours, (continued...)

Deferral: The clock would not run during a month of AFDC receipt if the individual was not subject to JOBS requirements because the individual was **deferred**.

The concept of "deferral" would replace the current law concept of an exemption. Generally, deferrals would be similar to, but much narrower than, current law exemptions. A custodial parent would qualify for deferral if she was:

- the parent of a child under age 1; however, if the child was conceived during a time of AFDC receipt, only a twelve-week deferral period would be allowed;
- ill, incapacitated, or age 60 or over;
- needed in the home due to the illness or incapacity of another household member;
- in the third trimester of pregnancy;
- living in a remote area, where round-trip commuting would exceed two hours in length (or if greater, the generally accepted commuting time in the area).

The deferral categories would be narrower than current exemptions in the following respects:

- Under current law, teen parents are subject to participation in education requirements immediately after the birth of a baby. For other recipients, states can choose to set their age of exemption at age 3, or lower the age to as low as age 1. The vast majority of jurisdictions currently use age 3.³ Since teen parents are a small percentage of the AFDC caseload⁴, dropping the age of deferral would significantly increase those required to participate.
- Pregnant women are currently exempt if the child is expected to be born in the month or the following six months.

2 (...continued)

and Ms. Smith worked 18 hours, the month would not count against either. But if Mr. Smith worked 20, and Ms. Smith worked 9, the month would count against her clock and not against his clock.

In either an AFDC-Basic or AFDC-UP family, the month would count against the clock even if the minimum work standard were satisfied if in that month the individual failed to accept an offer of additional hours of employment, or reduced hours of employment and thereby became eligible for additional amounts of aid.

³ According to federal JOBS data, of the 54 jurisdictions (the 50 states, D.C., Puerto Rico, Guam, and the Virgin Islands), 41 currently set their age of exemption at age 3; five use age 2, and eight use age 1.

⁴ In FY 91, 8.1% of adult female AFDC recipients were under the age of 20.

- Individuals under the age of 16, or those who have reached age 16 but are still full-time students are currently exempt; under the bill, custodial parents would not qualify for a deferral on this basis.
- The circumstances in which deferral would be allowed for illness, incapacity or the illness or incapacity of another are narrower than current law. To receive this deferral, the illness or incapacity would have to be confirmed by a licensed physician, psychologist, or mental health profession from a list of such professionals approved by the state.

In addition to the specified deferral categories, the state could place up to 5% (increasing to 10% after FY 99) of the phased-in group⁵ in deferral status for other criteria determined by the state. This is intended to be a general "good cause" provision to apply to such issues as severe learning disabilities or emotional instability. A state could petition to increase the good cause cap based on extraordinary circumstances. If the state exceeded its cap, there would be a 25% reduction in the federal share of the AFDC grants for the number of persons by which the cap was exceeded.⁶

Extensions: For those subject to time limits, an **extension** could be granted under limited circumstances:

States would be **required** to grant extensions to:

- individuals who reached the time limit but who had been unable to complete their education, training or other activities "by reason of the substantial failure of the State agency to provide or arrange for the provision of child care or any other service agreed upon in the individual's employability plan;"
- individual receiving services under the Individuals with Disabilities Education Act (IDEA), until the sooner of the time the individual attained a high school education or equivalent or turned age 22; and
- individuals in "structured learning programs"⁷ until the sooner of the time the individual completed the program or turned age 22.

⁵ Technically, the number allowed could not exceed 5% of the average monthly number of individuals in the phased-in categories and the average number of individuals registered in the WORK Program.

⁶ For example, if the federal government currently pays 50% of the cost of AFDC benefits, the federal share would drop to 37.5% for the number of persons by which the cap was exceeded.

⁷ A "structured learning program" is defined as one that begins at the secondary school level, continues into a post-secondary program, and is designed to lead to a degree or recognized skills certificate, and would include a program under the School-to-Work Opportunities Act.

States would also be **permitted** to grant extensions:

- for up to twelve months to allow high school completion;
- for up to 24 months to complete a post-secondary program if the individual was enrolled in work-study or employed at least fifteen hours a week;
- for up to 24 months for structured microenterprise or self-employment programs; and
- for the number of months determined needed for individuals with significant learning disabilities or other substantial barriers to employment.

A state would be penalized if extensions (other than extensions for individuals receiving services under IDEA or in structured learning programs) exceeded 10% of those to whom a time limit applied and who were required to participate. However, states would be required to grant extensions where there had been a substantial failure to provide services, even if granting such extensions forced the state to exceed its 10% cap. As with deferrals, the penalty would be a 25% reduction in the federal share of the AFDC grants for the number of cases exceeding the extension cap. A state could petition to increase the extension cap based on extraordinary circumstances.

Earn-Back: The twenty-four month clock would be a cumulative life-time clock, but there would be a limited ability to **earn back** additional months. If an individual left AFDC with more than 18 months counting against the 24 month clock, then the number would be reduced by one month for every four months in which the individual did not receive AFDC or participate in the WORK Program. However, the months on the clock for such a person would never fall below 18. In practice, this would mean that if an individual left AFDC after having used 18 or more months, she would never be eligible for more than 6 months of cash assistance without a WORK requirement, no matter how long she did not receive AFDC.

Example: Ms. Smith exits AFDC with 22 months used of her available 24. She does not receive assistance for the next year. If she then returns to AFDC, she would be treated as having used 19 months, and have 5 left on the clock.

Example: Ms. Jones exits AFDC with 22 months used of her available 24. She does not receive assistance for the next five years. If she then returns to AFDC, she would be treated as having used 18 months, and have 6 left on the clock, because the clock would never be "re-set" below 18 months.

Rules to Make JOBS Focus More on Immediate Job Entry

Under the bill, many of the most dramatic changes in JOBS may not flow from formal JOBS rules changes, but rather from state and individual responses to the pressure of the two year limit. For example, the bill does not formally restrict a state's JOBS option to allow access to

postsecondary education, but the two-year limit and restrictions on extensions are likely to have that effect in practice.

Of the formal rules changes affecting the JOBS Program, these would appear to be the most significant (in addition the changes in exemptions/deferrals already noted):

- The targeting requirements⁸ of current law and the duty to provide first consideration to volunteers among target group members would be eliminated.
- The purpose of a JOBS employability plan would be "to lay out the fastest and most effective way to help the participant find employment and become self-sufficient."
- States would be required to impose up-front job search requirements on all individuals subject to JOBS requirements and who either have non-negligible work experience or have a high school diploma or equivalent. The requirement would be effective on approval of AFDC application. The length of job search would be extended from 8 to 12 weeks. Job search would also become a required state plan component. In addition, job search would also be required "to the extent consistent with the goals of the individual's employability plan" before the close of the 24 month period.
- Being employed for at least 20 hours a week (or at state option, up to 30) would satisfy JOBS participation requirements.
- States would be required to review the individual's employability plan and progress at least once every six months.
- States are currently required to provide "basic and remedial education to achieve a basic literacy level". Under the bill, states would be required to provide instead "employment-related education to achieve literacy levels needed for economic self-sufficiency."
- Programs to prepare for self-employment or enable individuals to establish a microenterprise would be an optional state JOBS component.
- State plans would be required to describe steps the state would take to encourage training and placement of participants in nontraditional positions of employment.
- Conciliation and sanction procedures would be revised (as discussed later).

The overall JOBS funding level would be increased and the federal matching rate for states would also be raised. JOBS funding, now scheduled to reach \$1.3 billion in FY 95, would rise to reach \$1.9 billion in FY 99. The matching rate would gradually rise so that in FY 2000, state JOBS expenditures would be matched at the higher of 70% or the state's Medicaid match

⁸ Under current law, states face a penalty if they do not spend at least 55% of JOBS resources on members of federally designated target groups.

rate (FMAP) plus ten percentage points. This new rate would be called the enhanced FMAP rate. Child care, Transitional Child Care, and At-Risk Child Care costs would also be matched at the new enhanced FMAP rate. More details on funding levels and match rates are included in the Appendix.

The JOBS participation rate calculation would also be changed in significant ways. A state would be rewarded if its participation rate exceeded 55% and penalized if its rate fell below 45%. As with deferrals and extensions, the penalty would involve a 25% reduction in federal participation in the cost of the number of cases by which the state fell below the required level. Those counting toward the participation rate would be participants in the phased-in group (but not including deferred individuals participating as volunteers); employed individuals meeting the state's minimum work standard; and individuals being sanctioned. Thus, under this structure, a sanction would help a state meet its participation rate as much as would a participant. Individuals not subject to the time limit would not help the state meet its participation rate even though they were working or participating in JOBS.

A State Duty to Create WORK Positions for Those Who Reach the 24-Month Point

For those who reached the 24 month point, the state would have a duty to create a number of WORK positions. The WORK Program has sometimes been described as if it would be exclusively comprised of community service work slots. That may or may not turn out to be the case, but the legislation envisions more alternatives.

Generally, a state would have two sources of funding to create WORK positions. First, the state would be able to draw down open-ended federal funding at the state's Medicaid match rate for the cost of wages for WORK participants. Second, the state would be eligible to draw down its share of a federally capped amount at the enhanced FMAP rate for the other costs incurred in developing WORK positions and generating employment opportunities for those in the WORK Program. The amount of the WORK capped entitlement would increase from \$200 million in FY 98 to \$1.1 billion in FY 2000.

With the WORK funds, a state would be expected to locate and create temporary employment positions. A state's strategies and activities could include:

- wage subsidies or other incentives to for-profit, non-profit, and public employers to employ participants;
- performance-based contracts with public or nonprofit or other private organizations to place participants in unsubsidized employment;
- payments to non-profit employers to assist in supervising participants employed by such employers;
- assistance to participants in establishing microenterprises and other self-employment efforts;

- payments to non-profit employers and public agencies to employ participants in temporary projects designed to address community needs; and
- payments to employers to employ participants as child care providers.

Each local area would have a WORK advisory board, with representation from private sector employers, organized labor, not-for-profit organizations, including community based organizations; representatives of local government; and other community leaders. The board's activities would include offering advice and guidance on identification of potential positions, opportunities for placing WORK participants in unsubsidized jobs, methods for ensuring compliance with nondisplacement and coordination requirements.

The bill includes a set of provisions intended to prevent displacement of other workers when states use WORK dollars, and a set of procedures for the filing of grievances relating to nondisplacement, wages, benefits and working conditions; grievants would be allowed to appeal or submit grievances to binding arbitration.

WORK would pay at least the minimum wage but would deny participants the Earned Income Tax Credit and some rights of other workers.

In understanding how the WORK Program would look to an individual, it is helpful to distinguish issues of how the individual would enter WORK; the status of an individual while in WORK; and the circumstances under which WORK participation could end.

Entering the WORK Program: Not later than 90 days before the time limit is reached, the state would be required to schedule a meeting to evaluate progress under the employability plan, determine whether an extension was to be allowed, and inform the individual about job search requirements and how to register for WORK. Not later than 45 days before the close of the 24th month, the individual would be required to engage in job search for a period determined by the state.

After registering, an individual might not immediately be assigned to a WORK position. During any waiting period, the state could require the individual to participate in job search or other activities specified by the state; the individual complying with such requirements would qualify for AFDC assistance during this time.

How many of those who reach the 24 month point would receive WORK positions? A state would be penalized if it did not meet a "WORK participation standard." This would be satisfied if the state either:

- met a standard established by the Secretary for an average monthly number of WORK registrant assignments, with the number to be calculated based on the amounts available under the capped entitlement and the Secretary's determination of the amounts necessary to locate or create WORK positions; or

- met an 80% participation standard. Individuals counting toward this standard would be those in WORK positions, those who left WORK due to unsubsidized employment in the past three months, those participating in job search after a WORK position (for not more than three months), and those being sanctioned. Under this structure, imposing a sanction would help a state meet its standard as much as generating a WORK position. Individuals receiving AFDC and satisfying the minimum work standard would not be counted for purposes of the WORK participation standard.

The Administration estimates that in FY 2000, there would be an average of 394,000 WORK participants each month.

In allocating positions, first priority would be to those under a first WORK sanction, or who had completed the required ineligibility period for a subsequent sanction. Second priority would be those who had not previously received a WORK assignment during a period of consecutive months while registered for WORK. Otherwise, the state would determine the criteria for and order of WORK entry.

Individuals employed at the minimum work standard (20 hours a week, unless the state opted for 30) would continue to qualify for AFDC and not be subject to WORK requirements. However, those working below the minimum work standard would be subject to WORK requirements and be required to accept a WORK position. The state could not require total hours of work in excess of 35 hours a week, and would be required to ensure that WORK position assignments, to the maximum extent feasible, did not interfere with hours of unsubsidized employment if the individual was already working.

Status While in a WORK Position: An individual in WORK would be paid wages for hours worked. The wages would often be minimum wage, though the state would have a duty to pay the higher of state or federal minimum wage or "the rate paid to employees of the same employer performing the same type of work and having similar employment tenure with such employer." WORK participants would be entitled to the benefits, working conditions, and rights at the same level and to the same extent as other employees of the same employer performing the same type of work and having similar employment tenure with such employer.⁹ The state could choose the number of WORK hours between 15 and 35 hours a week.

WORK wages might or might not make the family ineligible for AFDC. The state would have a duty to ensure that if the individual participated the full number of required hours, the family would not have less income than if it were receiving AFDC with no other income.

This amount would be calculated with a disregard of \$120 for work-related expenses (which is the amount of the basic disregard for work-related expenses under the bill).

⁹ However, the employer would not be required to extend health benefits if the State agency concluded that it would impose an undue financial burden on either the employer or the state.

Example: State A pays AFDC of \$300 to a family of three with no other income.

- The state could meet WORK requirements by providing a job with wages paying \$420 or more, so that wages minus \$120 would at least reach the AFDC benefit level for a family with no income. In that case, there would be no AFDC supplement.
- Alternatively, suppose the state provided a 20-hour-a-week WORK position, from which the parent grossed \$366. The state would be required to issue a supplemental AFDC check for \$54 so that the family would reach the WORK hold-harmless level.

The state would have a duty "to the extent practicable" to ensure that participants' wages earned from WORK positions provide on average 75% of the sum of wages together with AFDC for participating families. This would mean, for example, that if the AFDC grant is \$300, and the WORK hold-harmless level is \$420, the state would need to provide enough hours for families, on average, to earn at least \$315. However, it is not clear how the phrase "to the extent practicable" qualifies the state's duties here.

The following provisions would apply to WORK participants:

- WORK participants would continue to qualify for Medicaid whether or not they continued to receive AFDC.
- For AFDC purposes, a WORK participant would qualify for a \$120 work expense deduction. Under the bill, states would be required to apply a \$120 disregard for those with employment income, and the state could choose to disregard additional amounts. If the state generally chose to disregard more than \$120 for working recipients, the state could choose whether to apply that same disregard to WORK participants.
- WORK participants would qualify for the child care guarantee and for work-related supportive services necessary for participation. This would not include transportation costs, which are intended to be covered by the \$120 disregard.
- If a WORK participant did not work the required hours, there would be no AFDC grant adjustment to reflect the reduced earnings. However, if the employer provided paid leave to similarly situated employees for illness or other reasons, the employer would be required to provide the same paid leave to a WORK participant. In addition, the Secretary would issue regulations specifying a minimum number of hours for WORK leave due to illness or other specified reasons; if the employer's leave policy were less extensive, the WORK policy would govern.

Example: Suppose HHS promulgates a rule saying that sick leave accrues at one day per month.¹⁰ Suppose the employer has no sick leave policy. During Month 2 of a WORK assignment, Ms. Smith is sick and misses two days of work. She would be entitled to one paid sick day, and would not be paid for the other sick day. However, her AFDC would not be adjusted to reflect the reduced wages.

- WORK wages would not qualify for the Earned Income Tax Credit, would not be treated as gross income for purposes of calculating federal taxes, and would not count as qualifying wages for an employer to receive the Targeted Jobs Tax Credit. Otherwise, WORK wages would be treated as if they were wages from unsubsidized employment for all purposes of federal law unless expressly provided otherwise by federal law.
- WORK funds could not be paid for contributions to a retirement plan.
- WORK employment would not count as employment for purposes of unemployment insurance.
- Individual WORK assignments could not exceed 12 months.

Review After WORK Assignments: In the months awaiting the Administration's bill, much attention was devoted to the question of whether the WORK Program itself would be time-limited, i.e., whether eligibility for any assistance would expire after a time. The resolution of this issue provides that after every second assignment completed by an individual (or after having been registered for two years), the state would be required to conduct a comprehensive assessment of the individual. Based on the assessment, the state would either:

- reassign the individual to deferral status;
- reassign the individual to JOBS;
- reassign the individual to another WORK position if the individual could not find unsubsidized employment because there were no available jobs that the individual had the necessary skills to fill, or because the individual is incapable of working outside a sheltered environment; or
- assign the individual to intensive job search supervised by a job developer; if the individual failed without good cause to apply for appropriate openings, to cooperate

¹⁰ HHS could promulgate a rule more or less generous than this one.

with the job developer or employer, or refuses a job without good cause, the individual and her family would be ineligible for AFDC or WORK for a six month period.¹¹

Penalties more severe than current law

Under the bill, penalties for program violations would be substantially more severe than current law; the procedural protections for those charged with violation of program rules are different from current law in a number of ways.

Penalties Before the Time Limit: Under current law, there is a single penalty structure for individuals who fail to participate in JOBS or who refuse to accept employment without good cause. When a penalty is imposed, the parent's share of the AFDC grant is removed:

- in the first instance, until the failure to comply ceases;
- in the second instance, for a minimum of three months and until the failure to comply ceases;
- in the third instance, for a minimum of six months and until the failure to comply ceases.

The bill leaves in place this same set of penalties for failure to comply with JOBS requirements.¹² In addition, a stronger penalty would be put in place for refusal to accept employment: If an individual who is required to participate in JOBS refused without good cause to accept employment of 20 or more hours per week (or a higher amount if the state used a higher minimum work standard), then the individual's family would be ineligible for aid for six months or (if earlier) until the individual accepted employment.

The bill also provides that failure to sign an employability plan would make the individual ineligible for aid until the individual signed an appropriate plan.

A sanctioned family (whether for violating JOBS rules or refusal to accept employment) would continue to qualify for Medicaid. However, for purposes of any other federal or federally assisted program, the family would be considered to be receiving the aid that would be payable

¹¹ The bill provides that "in such cases where the State finds that the individual is employable and living in an area where there are jobs available to match the individual's skills, the State may require the individual to engage in intensive job search, supervised by a job developer who may require the individual to apply for appropriate job openings to determine if the individual is making a good faith effort to find unsubsidized employment. An individual who fails without good cause to apply for appropriate job openings, cooperate with the job developer or employer, or accept a private sector job opening, shall be ineligible for aid under Part A [AFDC] or an assignment under the State's WORK program for 6 months. Following such a period of ineligibility, the State shall reassess such individual's status, and may take such steps under this subsection as it finds appropriate."

¹² The bill does amend the AFDC-UP penalties to provide that if a parent fails to participate, only that parent's share of the grant is removed.

if the individual were not being sanctioned. This is intended to prevent an increase in food stamps, housing assistance, etc., during a sanction period.

The bill adds one new circumstance under which an AFDC family could receive a grant reduction: An individual (whether or not deferred from JOBS participation) could be required to participate in substance abuse treatment available without charge and could be sanctioned for failure to do so.

Procedural protections would differ from current law in the following ways:

- **Disputes around employability plan terms:** The state would be required to have a "review mechanism" for disputes around the content of the employability plan. The process must at least provide for prompt involvement of another employee with supervisory or greater responsibilities. If agreement still could not be reached, the state would be required, in accordance with HHS regulations, to afford the individual access to arbitration or mediation, to a more formal review or hearing, or to a combination of such processes. The same procedures would apply to plan revisions. It appears that there would be no duty to provide a fair hearing in case of disputes around employability plan terms.
- **Disputes Around Participation:** Current law requires states to have a conciliation process to resolve disputes around participation, and to allow a fair hearing for those disputes not resolved through conciliation. The bill would allow states to choose between using conciliation meeting standards established by HHS, or to use a procedure that included advance notice to the individual of an apparent failure to comply, 10 days in which to contact and meet with a state agency representative to resolve the dispute (or comply with requirements) and make imposition of a sanction unnecessary. If the dispute was not resolved through the state's procedure, a fair hearing right would still be available.
- **Review after imposition of sanction:** The state agency would be required to conduct an evaluation of the circumstances in any case in which a first sanction continued after three months, and in the case of any other individual receiving a second or subsequent sanction, and provide appropriate counseling and other supportive services to assist the individual to address the cause of the failure or refusal.

Penalties After the Time Limit: The penalty for failing or refusing to accept a bona fide offer of unsubsidized employment of at least 20 hours a week (or less under certain circumstances)¹³ would be ineligibility for AFDC and WORK for the entire family for a six month period. Also, any individual who left unsubsidized employment of at least 20 hours a

¹³ The bill indicates that the individual could be required to accept employment of less than 20 hours if it met the requirements of Section 482(d)(2). However, this appears to be an erroneous reference since Section 482(d)(2) does not concern criteria for accepting employment.

week (or up to 30 at state option) would not be eligible to register for the WORK Program until 3 months from the date of having left the position.

In addition, there would be a set of penalties for violating WORK requirements. Penalties would apply if an individual, without good cause:

- fails or refuses to accept or report for a WORK position to which the individual has been assigned;
- voluntarily leaves such a position;
- fails or refuses to engage in job search or other required activities;
- is discharged by a WORK employer for misconduct.

There would be an escalating set of penalties in these situations:

- for the first failure, the family's AFDC grant would be reduced to 50% of what the family would have received while awaiting assignment to a WORK position for one month; this sanction can be cured if the individual accepts a WORK position or engages in the required action that he or she previously failed to do;
- for the second failure, the family's grant would also be reduced to 50% of the WORK waiting list level, for a three month period, with no eligibility for a WORK position during the three months;
- for the third failure, the family would be ineligible for aid for three months, and the individual may not be reassigned during the period;
- for the fourth and subsequent failures, the family would be ineligible for aid for six months, with no reassignment during the period.

During a sanction period, the family:

- would qualify for Medicaid;
- would still be considered to be receiving the WORK waiting list income level for purposes of other federal or federally assisted programs based on need;
- could cure the sanction and resume receiving assistance if the individual accepts unsubsidized employment of at least 20 hours a week.

The bill provides for a "thorough evaluation" of individual circumstances after a second sanction is imposed to determine whether the individual is appropriately registered for WORK or should be deferred.

Preliminary Observations

This section offers some preliminary observations on the structure and design of the "two years and work" model. In summary:

- The changes proposed by the Administration are profound. Whatever one thinks of the bill's wisdom, it can hardly be called "tinkering."
- The bill seeks nationwide implementation of an idea that has never been tested. Very little is known about whether states are capable of implementing the basic approach, or about how it would work if implemented. Nationwide implementation would take an enormous gamble with the lives of millions of poor families.
- Given the nature of the changes, some form of phase-in would clearly be needed; however, there are major concerns about the potential impact of beginning with the youngest parents.
- This bill does not assure access to two years of education and training. To the contrary, for many, the impact of a two-year limit before WORK will be a curtailment of access to education and training programs.
- While it is encouraging to see the bill recognize the need for "good cause" deferrals and extensions, the specific approach is extremely troubling. It seems to invite arbitrariness in program administration and denial of good cause/extensions in situations where they would be justified.
- The work-for-wages structure of the WORK Program has the virtue of making the positions more like a job than traditional "workfare" programs. The structure will reduce the poverty of some families, but it will increase the poverty of others.
- The denial of the Earned Income Tax Credit to WORK participants ensures that participating families will be left in poverty.
- The Administration assumes that tougher penalties are needed to increase labor market participation by AFDC families. Any welfare reform bill taking such an approach must strike a balance between the goal of promoting work and the goal of protecting the well-being of children. The bill loses sight of that balance and proposes a penalty structure that could increase the risk of homelessness and family break-up among poor families.
- The bill's reward and penalty structure for states could lead to very troubling affects. The bill creates a set of powerful incentives to encourage states to sanction individuals when there are disputes about program participation. At the same time, a penalty structure which depends on cutting federal match for AFDC benefits could encourage further reductions in AFDC assistance to poor families.

- Ultimately, the welfare reform debate in Congress may come down to a question of "compared to what?" While it has serious deficiencies, there are also major respects in which the Administration's bill is superior to other "two years and work" models pending before Congress. There are many reasons to believe that uniform national implementation of a "two years and work" model is unwise, and that some alternative welfare reform approaches would be preferable. However, if Congress determines to opt for a "two years and work" approach, it will be crucial to focus on the differences between the pending plans.
- **The changes proposed by the Administration are profound. Whatever one thinks of the bill's wisdom, it can hardly be called "tinkering."**

In initial press accounts of the Administration's bill, some commenters emphasized its gradual phase-in and the limited numbers of persons affected in the first few years. Others have tended to see the plan as primarily an expansion of JOBS with a work component added. As should be evident, the bill involves much more. It would not just expand JOBS; it would fundamentally alter the focus of JOBS and the nature of AFDC. Moreover, if the Administration's projections are accurate, the WORK Program in the Year 2000 would involve 394,000 people. By way of comparison, in the current JOBS Program, in an average month in FY 92, there were 2417 people working in jobs with subsidized wages; if one adds all those in unpaid work experience positions, the total in some form of subsidized work activity was not more than 27,549 in an average month.¹⁴

Since this document has focused exclusively on the "two years and WORK" model, it has not described the changes in child support, child care, teen parent rules, and other AFDC rules in the Administration's entire package. However, even limiting one's scope to the WORK Program, it seems clear that the bill would generate a set of changes unlike any ever attempted in the welfare system. Whatever one thinks of their wisdom, the changes can be hardly be considered mere tinkering.

- **The bill seeks nationwide implementation of an idea that has never been tested. Very little is known about whether states are capable of implementing the basic approach, or about how it would work if implemented. The bill would take an enormous gamble with the lives of millions of poor families.**

Because there has been so much talk about two-year limits in the last several years, it is sometimes forgotten that no state has ever implemented one. There is literally no experience with anything remotely like the Administration's proposed approach.

¹⁴ It is impossible to tell the precise number, because some states list participants in alternative work experience programs as "other," though it is clear that some in the "other" category are not in work programs. In an average month in FY 92, one can estimate from federal reporting that there were 17,888 persons in community work experience, 1934 persons in on-the-job training, 483 in work supplementation, and 7256 in "other."

The lack of experience is important for two reasons: first, it is not known whether states have the capacity to implement the basic design; second, it is not known what would likely happen if the bill were implemented.

Any discussion of a two-year limit should begin with the recognition that a large number of people are likely to reach it. It is sometimes suggested that with a well-functioning JOBS Program, along with expanded health care, child care, child support, and the EITC, only a small number might reach the two year point. Certainly, all these features would reduce the number reaching the two-year point, but the number is still likely to be quite substantial. For example, consider the **three-year** impacts for California's GAIN Program. These include the impacts for Riverside County, which reflected the highest employment impacts ever measured for a broad-based, mandatory, welfare-work program. Most of those subject to program requirements entered employment over the three year period (as did most of those not required to participate in the program). However, at the end of the third year, most of those subject to GAIN requirements (41% in Riverside) were receiving AFDC, and only a small fraction earned as much as \$10,000 over the year.

Key Impacts for California's GAIN Program (Third Year Findings)		
	Experimentals	Controls
Ever employed, years 1-3	57%	51%
Ever employed, year 3	40%	34%
Earned at least \$5000, Year 3	20%	16%
Earned at least \$10,000, Year 3	12%	9%
Average Earnings of those employed, Year 3	\$7977	\$7487
Received AFDC, last quarter, Year 3	52.5%	55.5%
Ever Employed, Years 1-3, Riverside County	67%	53%
Ever Employed, Year 3, Riverside County	44.5%	35%
On AFDC, Last Quarter, Year 3, Riverside County	41%	46%

As these numbers demonstrate, an effective JOBS Program can raise employment and earnings and reduce the need for AFDC. However, most of its participants are still quite poor and many are still in need of AFDC. Moreover, many of those who enter employment subsequently lose jobs, and thus have occasion to need AFDC again. There is simply no reason to believe that only a small group will reach the two year point over time.

For those who reach the two year point, the Administration's bill would initially call for the creation of hundreds of thousands of subsidized jobs, with the number needed likely to steadily escalate over time. Could states create these jobs? Could they do it without displacing other workers or driving down wages for other low-wage workers? While there is experience with public jobs creation, these jobs would be targeted at young single mothers for which other approaches have not been successful over a two year period. There is no experience from which to draw a comparison.

If states were successful in generating the needed jobs, what would the likely effects be? The available research on unpaid work experience programs in the past suggests that such programs have had little or no impact on employment or earnings. In a set of significant ways, the Administration's design differs from traditional workfare, but there is no research base from which to estimate its likely effects.

Finally, the Administration's design envisions much greater penalties for those who fail to comply. Again, penalties of this magnitude have never been tested. One can conjecture about the likely impacts on families, but there is no experience with this approach.

In short, the Administration's approach might make for a valuable demonstration project, but nationwide implementation involves an expensive and potentially dangerous gamble.

- **Given the nature of the changes, some form of phase-in would clearly be needed; however, there are major concerns about the potential impact of beginning with the youngest parents.**

The bill's phase-in strategy will be controversial for two very different reasons:

First, some opponents have criticized the gradual nature of the phase-in for taking too long in subjecting families to the time-limits and work requirements. This criticism is not well-founded. The phase-in approach was chosen partly because of fiscal constraints and partly because of concerns about administrative capacity:

- In part, the Administration's bill is less costly than some other bills because others with a more rapid phase-in rely on much deeper cuts in other low-income programs, and particularly on much deeper cuts in assistance to legal immigrants.¹⁵

¹⁵ For example, the Administration's financing involves \$3.7 billion in reductions in assistance to legal immigrants. The principal Republican alternative, H.R. 3500, proposes reductions in eligibility for 61 federal

(continued...)

- As compared with the principal Republican alternative, the Administration's bill provides a higher rate of federal matching funds to states.¹⁶ Many people believe that higher federal match is essential to ensure that states will be able to meet the new federal requirements, but using a higher federal match rate means that the same number of federal dollars do not generate as many state dollars for program operation.
- The number of WORK slots in the Administration's bill is also constrained because the bill reflects the principle that those who work ought to be paid wages and should not be paid less than the minimum wage. In contrast, the principal Republican alternative simply requires individuals to work 35 hours a week in order to receive an AFDC grant, regardless of the amount of the grant. (For example, AFDC recipients in Mississippi would be required to work 35 hours a week to receive a \$120 a month AFDC check, i.e., an effective wage rate of \$.79 an hour). It is, of course, cheaper not to pay the minimum wage.¹⁷
- An immediate phase-in involving the entire AFDC population would likely overwhelm the ability of states to administer the program: there are currently 5 million families receiving AFDC, and it is estimated that 3 million would be affected by the 2 year limit. Some form of gradual phase-in seems essential. The Family Support Act allowed two years for planning and an additional two years before states were required to be statewide. In contrast, the principal Republican alternative assumes and requires that states move from 100,000 persons in work components in FY 96 to 300,000 in FY 97; 600,000 in FY 98; and 900,000 in FY 99. It is at best doubtful that states, even if they had the money, could responsibly create this number of work slots in this time frame.

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programs for legal immigrants. Preliminary Congressional Budget Office staff estimates concluded that the reductions in four of those programs - SSI, Medicaid, Food Stamps, and AFDC - would total \$21.3 billion alone. (Only \$1 billion of this total would be in AFDC reductions; \$17.5 billion would involve reductions in SSI and Medicaid.)

¹⁶ For example, H.R. 3500 raises the JOBS/work match to the higher of 70% or the state's Medicaid match rate, but only after the state draws down all funds in the basic capped entitlement at its old match rate. Most states have been unable to draw down available funds in the past - in FY 92, only about 60% of available funds were drawn down. As a result, it is at best unclear whether states would be able to access the improved match rate.

Further, H.R. 3500 makes no change in the child care matching rate, even though child care would involve the majority of state costs for the JOBS/work components of the bill. Child care costs are estimated as \$1.8 of the \$3.2 billion in state costs for the first five years under H.R. 3500, and \$2.7 of the \$4.2 billion in state costs in Year 6. In addition, JOBS administrative costs would still be matched at 50-50 under H.R. 3500, while the Administration's bill would apply its higher match rate to all JOBS costs.

¹⁷ While H.R. 3500 avoids the cost of paying wages, it does incur additional child care costs by imposing a uniform 35 hour-a-week obligation on all affected families. In light of these higher child care costs, it is not yet clear whether the cost-per-slot would be higher under the Administration's bill or under H.R. 3500.

A very different concern about the phase-in approach focuses on the wisdom of phasing in the youngest families first. Phasing in the youngest families first has an obvious political appeal because it allows the Administration to say that welfare will never be the same for a young person entering the system. However, it raises major policy questions:

- It will require states to focus primarily on parents with very young children. More families will need child care, child care will be more expensive, and there are serious concerns about the supply and quality of child care for very young children. For all these reasons, most states have opted against dropping their age of exemption to age one under current law although they have been free to do so.
- There is no evidence that states will be able to operate very successful employment programs for the youngest AFDC recipients. Recent research (the JTPA evaluation, the JOBSTART evaluation, the New Chance Demonstration, the Teen Parent Demonstration) has indicated that the evaluated programs may be successful in raising participation rates, but have had modest or no impact on raising employment and earnings for youth. Inherent in the Administration's basic design is the hope that with intensive JOBS services, only a small group will reach the two-year limit. While there is reason to doubt that this will be true for any group, the concern is particularly strong for young recipients.
- The focus on youth has the effect of shifting resources away from the JOBS Program for adults. In contrast with youth evaluations, the evaluations of JOBS-type programs for adults consistently have shown positive effects on raising employment and earnings (though still not at levels remotely approaching the performance the Administration hopes for here). Thus, there is a fear that the youth focus will result in a shifting of resources from programs of demonstrated effectiveness to a major gamble on programs for youth where there is no evidence that states will be able to operate programs of comparable effectiveness.
- **This bill does not assure access to two years of education and training. To the contrary, for many, the impact of a two-year limit before WORK will be a curtailment of access to education and training programs.**

During the 1992 election, the President's welfare campaign pledge included language promising to "Empower people with the education, training, and child care they need for up to two years, so they can break the cycle of dependency"¹⁸ before imposing a community service work requirement. While the bill does expand the JOBS Program, it falls far short of any commitment to empower people with needed education and training. To the contrary, there is reason to fear that the bill would result in a curtailment of access to education and training for many.

¹⁸ Clinton and Gore, *Putting People First* (Times Books, 1992) at p.165.

First, the bill has been drafted so that individuals would not have a right to needed education or training. Under the bill, an individual's services would depend on the content of her employability plan. However, the purpose of the plan would be "to lay out the fastest and most effective way to help the participant find employment and become self-sufficient." Under this language, an individual wanting to get training for a family-supporting job would have difficulty justifying participation in training if she had the capacity to earn the minimum wage.¹⁹

Second, the bill appears to have been drafted to limit an individual's ability to challenge decisions about the plan. In case of disputes about the terms of employability plans, states would have to have a review mechanism, but would apparently not be required to provide a fair hearing before an independent hearing officer. Even if there were an independent review, it would likely be of little consequence if a state could satisfy its duty to demonstrate the reasonableness of the plan by showing that the individual currently had the capacity to earn the minimum wage. At the close of the two year period, an individual could seek an extension by showing that the state had failed to substantially provide the services in the employability plan, but the claim that the plan itself had been deficient or inappropriate would apparently not be a basis for an extension.

Accordingly, if a state implementing the bill decided to sharply narrow the circumstances under which education or training were approved JOBS activities, individuals would have little if any ability to contest the state's decisions.

Third, several aspects of the bill are likely to discourage states from providing longer-term education and training opportunities:

- The defined purpose of the employability plan seems to send a signal that access to longer-term programs is not encouraged.
- All states would be required to impose and administer up-front job search requirements for those with non-negligible work histories. This would curtail a state's ability to determine whether it made sense to impose the requirement for particular individuals.
- States are likely to be fearful of approving any programs which increase the likelihood that an individual will need an extension, since granting an excessive number of extensions would result in a fiscal penalty.

¹⁹ This would be the case for two reasons. First, since the bill does not define "self-sufficient," states would likely be free to define it as earning enough to make the family ineligible for AFDC; minimum wage jobs would often meet this standard. Second, a state might conclude that the best route to eventual self-sufficiency was to accept any available job. If a state adopted such a philosophy, an individual wanting access to an education program would have little ability to assert that the law envisioned that she should have an opportunity to participate in one.

- The restrictive nature of the bill's earn-back provision would mean that once an individual had accumulated 18 months of clock-time, the individual could never qualify for more than a six month education/training program unless an extension were granted.

Fourth, even if a state were willing to design longer-term education and training plans for new AFDC entrants, such an approach would have limited relevance for many families because most AFDC entrants do not receive AFDC continuously for 24 months. About 50% of AFDC entrants exit within one year and 70% within two years. Many of these families subsequently return -- it is estimated that 50% to 70% or more AFDC exiters return at a later point. The overall effect is that many of those who will be affected by a 24 month limit will not have received AFDC for 24 consecutive months -- rather, they will accumulate 24 months over two or three or more spells. Accordingly, a 24 month clock would likely mean that many recipients would never get substantial access to education or training programs even if the state wished to provide such access, because the 24 months will get used up in multiple fragmented spells.

One possible way to address the multiple-spell issue would be to have a more flexible earn-back policy in which a parent who did not receive AFDC for a substantial period of time could recover additional clock-time. Unfortunately, the bill's earn-back provision is quite narrow. Once an individual passes the eighteen-month point, she would never have access to more than six months of services (unless an extension were granted), no matter how much time passed since she last received AFDC, or no matter how her circumstances had changed since the last spell of AFDC receipt.

In light of the dynamics of AFDC receipt, it seems inevitable that the basic focus of employability planning for many participants under the bill will shift from "what makes sense for this person" to "how many months are left on the clock." Many of those who return to AFDC have already had substantial experience in the low-wage labor market, and need access to educational opportunities that can improve their ability to permanently support a family. Yet they will be faced with a system in which the critical determining question will be the number of months of prior AFDC receipt.

While the bill does not formally restrict access to postsecondary education, such a restriction seems virtually assured in practice, for three reasons. First, states will be fearful of exceeding their extension caps. Second, since extensions would only be decided as an individual neared the 24 month point, no individual wanting to begin a program would ever be able to know at the outset whether she would be permitted to complete it. Third, in a system where one only has 24 months in a lifetime clock, it seems likely that individuals will be fearful to participate in any activity that could risk exhausting assistance that might be needed later.

As suggested above, it is possible that WORK participation will do little to enhance employability, particularly for those who already have substantial labor market experience. Yet under this structure, rigid distinctions will be drawn as to when education access is allowed and when it is restricted. In some instances, individuals will be forced to terminate potentially productive education programs regardless of whether the individual seems likely to be one who

would "benefit from a work experience." Indeed, in some cases, individuals may be forced to terminate education and training programs in order to be on a WORK waiting list.

In summary, the bill has been drafted so that individuals do not have a right to (and have little basis to make a claim for) access to education or training; the structure is one which will likely discourage states from providing such access; and even if a state wishes to provide such access, the dynamics of AFDC receipt and restrictive extension and earn-back rules will make it more difficult to do so.

- **While it is encouraging to see the bill recognize the need for "good cause" deferrals and extensions, the specific approach is extremely troubling. It seems to invite arbitrariness in program administration and denial of good cause/extensions in situations where they would be justified.**

On the one hand, one can commend the Administration's recognition of the need for good cause deferrals and extensions: not every bill does this. At the same time, the proposed structure seems likely to result in denials of good cause and extensions in situations where they are justified.

On both good cause deferrals and extensions, the bill allows states a capped percentage (initially, 5% for deferrals and 10% for extensions) and penalizes states that exceed that percentage. The basic difficulty with a percentage approach is that states are likely to be incapable of operationalizing it in a non-arbitrary way. For example, assume that a state has the ability to track its deferral number and discovers six months into the fiscal year that it is averaging 7% on good cause deferrals. What should the state do? Stop granting new good causes? Revise criteria prospectively so that the criteria that justified good cause earlier in the year do not justify it later in the year? Revise criteria retroactively so that individuals who had been found to have good cause no longer have it? There are obvious problems with each alternative.

The problem for an agency worker is that he or she can attempt to fairly apply a set of criteria, but cannot fairly apply a concept like 5%. Should each worker have a goal that no more than 5% of their caseload is in good cause status? Should workers seek to minimize good cause findings, on the premise that other workers might not? Should the worker deny good cause status to Ms. Jones today because it was granted to Ms. Smith yesterday.

The concept of a 10% cap on extensions presents many of the same problems. Entering into this process, we have no idea how many people might need an extension - length of current JOBS participation may or may not be a good predictor. However, the issue here becomes one of how states and workers can operationalize the 10% standard. Would it mean, for instance, that individuals might be able to get GED completion approval early in the fiscal year, but not later in the fiscal year? Would it mean that once a state reached or neared its cap, cases would be denied regardless of their merit? Would workers have to be fearful that by granting an extension to Ms. Smith today, it would be more difficult to grant an extension to someone tomorrow who might theoretically be more worthy?

This structure would also create unreasonable dilemmas for participants. It would mean that individuals would often begin a program with no idea whether they would be allowed to finish it. This would be a particularly hard problem for those considering two-year postsecondary programs, and those who return to AFDC after time away with only a limited number of months left in a clock.

Note that for those beginning two-year programs, a large number would likely need at least a brief extension. If Ms. Smith enters AFDC in April, and her program begins in September, she will not complete it in 24 months. Should she apply for her extension early, or does she have to wait until her 45 day review? If she has to wait, she is at a disadvantage against those in the same program who entered AFDC in February or March.

It is also puzzling why the extension for two or four year programs is conditioned on simultaneous participation in work-study or part-time work. In some instances, that will be appropriate but not as a uniform and unvarying rule. If Ms. Smith needs a two or three month extension to complete a program, is there something gained by saying she must also take on a part-time job for the last few months when she is in the last stages of program completion?

In short, the good cause/extension structure is one that seems likely to invite arbitrariness in program administration. There is no justification for imposing such rigid caps at this point in program implementation.²⁰

- **The work-for-wages structure of the WORK Program has the virtue of making the positions more like a job than traditional "workfare" programs. The structure will reduce the poverty of some families but increase the poverty of others.**

The Administration apparently opted for a work-for-wages model for two reasons. First, advocates (and many administrators) have long criticized unpaid work programs as lacking the dignity of "real" jobs, and as a structure that has not been shown to be effective in improving the employment opportunities of participants. In addition, Administration officials also wanted a structure where an individual who did not work would not get paid, so that the consequences of non-performance would more closely simulate "real work."

The work-for-wages structure that emerged is a hybrid, with some of the characteristics of real jobs (payment of wages, subject to FICA requirements, entitlement to same benefits as similarly situated workers) but not others (e.g., qualifying for the Earned Income Credit, qualifying for

²⁰ It seems clear that the bill's use of good cause/extension caps is intended to prevent states from inappropriately placing people in these categories in order to avoid the time limits and WORK requirements. But there may be less drastic ways to address this concern. At this point, there is little basis for knowing what a good cause or extension level "should" look like in a well-functioning program, or how much variation should be anticipated between states. Accordingly, in the early years, it ought to be sufficient to require states to report on the numbers and bases when good cause and extensions are granted, and use federal reviews of those states with exceptionally high "good cause" or extension numbers. A high number may be reason for review, but not for assuming the state must be doing something wrong.

unemployment insurance). While jobs could pay more than minimum wage, the Administration envisions that most of them would not.

Overall, the WORK structure would reduce the poverty of some participants and increase the poverty of others. Because there is no experience with the model, it is impossible to tell how many will fall into each group. However, the overall effect would depend on the following factors:

- **Would states use an earnings rule more generous than that mandated by law?** under the bill, for AFDC generally, states would be required to disregard \$120 of earnings and allowed to disregard additional amounts determined by the state. However, if a state opted to disregard amounts in excess of \$120, the state would not need not apply the higher disregard to WORK participants. With the new flexibility on earnings, states may resume something like their pre-1981 earnings rules for AFDC families - a disregard of \$120 and 1/3 of the remainder. However, given the cost of maintaining an individual in the WORK Program and the other costs of the new system, there may be a strong incentive to deny the optional disregard amount for WORK participants.²¹
- **How many hours of WORK will be allowed/required by the state?** The bill envisions that states could choose to set a number of WORK hours between 15 and 35; the state's basic duty would be to ensure that if an individual worked all scheduled hours, her family should not be financially worse off than previously (assuming work expenses of \$120 or less). In the lowest benefit states, even a 15 hour job would generate more income than the than the prior AFDC grant. In other states, a critical question would be whether the state provided the minimum hours required by statute, or allowed individuals to work additional hours. If a state provided a 30 hour work slot at minimum wage, the individual would gross \$548.25, which would exceed the \$367 AFDC grant for three in the median state. However, given the many fiscal pressures states will face under the bill, it is very possible that states will not wish to provide WORK slots for hours in excess of those required by law or needed to make a family ineligible for AFDC.

²¹ There are actually two separate problems in the bill's treatment of the earnings disregards. First, for AFDC recipients generally, the bill requires a \$120 disregard, but leaves to state option whether to provide any additional disregard amount. In contrast, under current law, an AFDC recipient receives an earnings disregard of \$120 and 1/3 of the remainder for the first four months; then, a \$120 disregard is allowed for the next eight months. Therefore, it is possible that some states would use the option under the bill to provide a basic earnings disregard that is worse than that provided under current law.

The second problem - that a state might make use of an improved earnings disregard, but deny it to participants in the WORK Program - will only arise if the state opted to make use of an improved earnings disregard for other AFDC families.

- **Will \$120 be enough to meet work-related costs?** In a workfare assignment in the JOBS Program, a state has a duty to pay the cost of transportation and necessary supportive services. In WORK, a \$120 earnings disregard would be allowed instead. This would need to cover the cost of FICA, other mandatory deductions, transportation, and all other work-related expenses. If an individual's work expenses exceeded \$120 a month, and the state only allowed the \$120 disregard, then participating in WORK would leave the family poorer than when it was just receiving an AFDC grant.
- **How many families would be hurt - and how badly would they be hurt - by the pay-for-performance structure?** The basic WORK design envisions that an individual will normally be paid only for hours worked. Even if one assumes that \$120 roughly approximates WORK expenses, then in many families, the parent will need to attend all scheduled hours of WORK in order to have enough income to reach the prior AFDC level. If the parent is unable to do so - because of transportation or child care breakdowns, the illness of a child, sickness not covered by sick leave policies, or any other reason - the family will have less income than the AFDC floor. For affected families, there is no margin for error -- any one of multiple things that can go wrong in a month will leave the family with income below the basic AFDC benefit level.

How many parents will be unable to consistently participate at the 100% level? It is worth keeping in mind that in the JOBS Program, the Bush Administration established a rule providing that a state could count the individual's scheduled hours of participation if she actually attended 75% of scheduled hours.

In addition to these factors, there would also be a food stamp advantage for those participating in WORK (because WORK earnings will be treated as earned income for food stamps) and families earning enough to no longer qualify for AFDC will get the full benefit of any child support paid.

As this discussion suggests, the WORK Program seems likely to at least modestly raise the income of some families, and to - perhaps sharply - reduce the income of others. A participant may be better off than under current law if she is able to work all scheduled hours and her actual work expenses are less than \$120 a month, or if the state provides more hours or better treatment of earnings. Conversely, if a state meets its minimum obligation, an individual who cannot maintain perfect attendance or who has higher work expenses will be poorer than under current law.

For anyone who believes that welfare reform should have something to do with reducing poverty, this discussion should be disturbing. The overall conclusion is that the WORK Program may have no net effect of reducing poverty, and may even result in a net increase in poverty for participating families.

- **The denial of the Earned Income Tax Credit to WORK participants ensures that participating families will be left in poverty.**

The WORK Program has been designed to be less attractive than unsubsidized minimum wage work. The necessary consequence is that participating families will be left deep in poverty.

Administration planners concluded that it was important to make WORK positions pay less than unsubsidized employment, in order to maintain a strong incentive to seek unsubsidized jobs. To create this incentive, the decision was made to deny WORK participants eligibility for the earned income tax credit. Until now, the EITC has been viewed as the centerpiece of the Administration's effort to reduce poverty for working families. However, under this design, hundreds of thousands of poor working families will be denied access to the EITC.

Since there has never been a WORK Program, there is no evidence that denial of the EITC is needed to maintain an adequate incentive to look for unsubsidized jobs. Receiving minimum wage and the lack of any potential advancement while in a WORK slot are likely to be motivating factors. States will already be free to impose job search requirements and strong penalties on anyone failing to apply for or accept unsubsidized jobs. States will be able to make use of intensive job search periods between work assignments.

The denial of the EITC is particularly distressing when coupled with the state option to deny all earnings disregards after the \$120 work-expense deduction. There are two principal ways in which government can reduce the poverty of working poor families: through the Earned Income Tax Credit and through the AFDC earnings disregards. The bill would create a class of working poor families who are denied both of these crucial supports.

Making WORK assignments so unattractive would have an additional troubling effect. The basic message in the WORK structure would be: "If you can find an unsubsidized job at any point, you should take it immediately." For any WORK sponsor, this would mean that it would always be risky to give a WORK participant any responsibility that could not be completed by the end of the day. It would be irrational to invest any effort in training or substantial supervision of an individual whose goal was to be gone tomorrow. Thus, the harsh treatment of WORK workers will both leave them poorer, and increase the likelihood that their WORK assignments will offer little to improve their employability.

- **The Administration assumes that tougher penalties are needed to increase labor market participation by AFDC families. Any welfare reform bill taking such an approach must strike a balance between the goal of promoting work and the goal of protecting the well-being of children. In its penalty structure, the Administration's approach loses sight of that balance, and proposes a penalty structure that could increase the risk of homelessness and family break-up among poor families.**

It seems clear that the Administration's process has been guided by the premise that tougher penalties were needed to increase labor market participation by AFDC families. Any welfare reform bill taking this approach must seek to strike a balance between the goal of promoting

work and the goal of protecting the well-being of children. The reality is that it is not possible to design a penalty which just affects the parent. Accordingly, programs often seek to design a sanction structure which is substantial enough to "get the participant's attention" and hopefully affect behavior, but without putting the family at risk of eviction or other serious crisis.

Unfortunately, the Administration appears to have lost sight of this principle. The WORK Program design envisions 50% and 100% whole-family-sanction penalties. Penalties for failure to accept employment or failure to adequately cooperate with a job developer will involve loss of all assistance for a six-month period.

There is no research basis for concluding that penalties of this magnitude are needed or will be constructive. Indeed, they could even have the opposite effect - if the effect of a penalty is sufficiently catastrophic, the agency may be fearful to use it in circumstances where a penalty might be appropriate.

While the six month penalties may be intended for their deterrence value, what will happen to families when they are imposed? Suppose the penalty is imposed in Month 1, and Ms. Smith is in danger of eviction in Month 2. What should the state do? Provide emergency assistance? Allow the eviction to go forward to teach Ms. Smith a lesson?

There is no evidence that current law sanctions have been inadequate; indeed, there is not even evidence that "refusal to accept employment" has been an issue in the JOBS Program. The Administration's sanction approach offers the virtue of "toughness", but has no other virtue..

- **The Administration's reward and penalty structure for states could lead to very troubling affects. The approach creates a set of powerful incentives to encourage states to sanction individuals when there are disputes about program participation. At the same time, a penalty structure which depends on cutting federal match for AFDC benefits could encourage further reductions in AFDC assistance to poor families.**

Administration officials often talk about the need to change the culture of the welfare system from one whose principal goal is payment accuracy to one whose principal goal is job placement. Many people share that goal. However, the reward and penalty structure for states in the new system is not one based on employment gains or job placements. Rather, the rewards and penalties are based on denying good cause and extension requests, and meeting participation standards which can be most inexpensively reached through maximizing sanctions of program participants. Moreover, at a time when many states have frozen or reduced AFDC benefits, the approach is one that may actually increase the cost of providing basic assistance to families.

States are heavily motivated by fiscal rewards and penalties. They have been strongly focused on issues of payment accuracy because they face federal penalties if they are not. They have devoted extensive resources to meeting JOBS participation rates because they risk penalties if they do not. Accordingly, in thinking about the likely behavioral effects of the new system, the first question to ask is how states will be rewarded or penalized.

Under the bill, states will be rewarded for having a participation rate exceeding 55%. They can be penalized for having a participation rate below 45%, for exceeding the cap on good cause deferrals, for exceeding the cap on extensions, or for failing to meet the WORK participation standard. In each case, the penalty will involve a reduction in federal match for the cost of basic AFDC benefits for the number of cases by which the state fails to meet the applicable standard.²² Thus, the basic penalty is always to raise the cost of AFDC assistance in the state.²³

In establishing the JOBS and WORK participation standards, the bill contains a seemingly technical but extremely important decision. Individuals will count toward the participation standard **either** if they are participating or if they are in sanction status. In practice, this will mean that the way to maximize a participation rate is to maximize the number of sanctioned individuals. When an individual fails to participate, the facts are often blurry or ambiguous. Under this structure, if a state imposes a sanction, the case helps meet the participation rate; if a state finds good cause, the case hurts the state in its effort to do so.

To be clear, this is not suggesting that states will intentionally seek to sanction when there is no basis for doing so. Rather, in day-to-day welfare administration, there are many instances of technical and not-so-technical program violations, and states must decide how much effort to invest in determining the facts and seeking to resolve the problem. If Ms. Smith says her child was sick, but does not bring in a doctor's note on time, what should the state do? If she claims the bus didn't come, should the state believe her? If she asserts that she never got a notice the worker mailed, should she be allowed another chance? There are countless such examples in which determining the truth is difficult or impossible or could require expending substantial resources. In the current structure, states are neither rewarded nor penalized for imposing

²² There are serious questions about the administrability of such a structure. Note that the penalty for attaining a 43% participation rate (i.e., falling short by 2%) would be twice as great as the penalty for attaining a 44% rate (i.e., falling short by 1%). One question is whether it makes sense to have the magnitude of penalties escalate in this way; another question is whether states could ever report or the federal government could ever verify data at a level of precision that could allow one to reliably distinguish between a 43% and a 44% rate.

²³ In what may be a technical error, the bill also contains a somewhat ambiguous provision which appears to state that payments resulting from exceeding the good cause or extension limits, or for failure to meet JOBS or WORK participation standards, would be considered erroneous payments for purposes of AFDC quality control. This may not have intended, since the bill separately establishes the penalties for failure to meet these requirements.

sanctions in such cases.²⁴ In the proposed structure, the incentive to sanction would be substantial.

There may also be a strong direct fiscal incentive to sanction. Congressional Budget Office staff have preliminarily estimated that the cost of an individual in a 35-hour-a-week work-for-welfare slot would exceed \$6000 a year, including child care. If one assumes comparable costs for the WORK Program, the six month cost of a WORK slot would be something like \$3000.²⁵ Adding in the cost of AFDC benefits, in the median state, imposing a six month sanction could be \$5000 cheaper than providing assistance and a WORK slot for that period.²⁶

The bill does require the development of performance measures and outcome-based performance standards, which would be mandated to be in place by FY 99. One should view this with great caution. In the Family Support Act, passed in 1988, HHS was required to submit performance standard recommendations to Congress by October 1993. No performance standards have been submitted yet.

It is also very troubling that when a penalty is imposed on states, it will be in the form of reduced federal match for basic AFDC benefits. Taken as a whole, the Administration's bill would improve the match for JOBS, for work activities, and for child care, but would actually create a risk of reduced match for basic cash assistance because each of the bill's potential penalties is one which raises the cost of providing AFDC. Moreover, reducing the federal match does not affect all states equally. Two groups of states would run the greatest risk of being hurt:

- The poorest states have the highest Medicaid match rates, so a 25% reduction in match rate has a higher proportional effect on them. For example, a 50-50 state would face a drop to 37.5%, i.e., each dollar of AFDC assistance for affected cases would cost \$.125 more. Stated differently, for every four dollars the state was paying in benefits for affected cases, the state would now have to pay five. In contrast, for an 80-20 state, federal match would drop to 60-40. Per dollar of assistance, the state share would increase from \$.20 to \$.40. This would mean that for every dollar the state was previously paying for affected cases, the state would now have to pay two.

²⁴ In the JOBS Program, when an individual does not participate, the state must label the case as either good cause or a sanction case. Individuals in good cause or sanction status do not count in either the numerator or denominator for purposes of the JOBS participation rate. Hence, there is an incentive to generate participation, but if the individual does not participate, there is no advantage in labeling it as a sanction instead of a good cause case.

²⁵ The actual cost may differ from the work-for-wages model, because the WORK model does not assume that all positions will be 35 hour jobs, so there may be reduced child care costs. It is not clear whether administrative costs would be expected to vary for other reasons.

²⁶ The median benefit for a family of three with no income in the median state is \$367. Adding \$120 for the work expense disregard, the AFDC cost for six months would be \$2922.

- Among states with equal or roughly equal Medicaid match rates, the penalties would be imposed more severely on those which pay higher AFDC benefits. For example, consider two states with 50% match rates, one of which pays AFDC of \$600 and one of which pays AFDC benefits of \$300. For each case exceeding the cap, the penalty on the higher benefit state (\$75) is twice as much as the penalty on the lower benefit state (\$37.50).

If a state faces a substantial penalty in AFDC costs, the response may be to find ways to reduce AFDC costs, i.e., reduce benefits even further. It is one thing to come forward with a welfare reform plan which does nothing to raise basic benefits; it is another to come forward with a plan that may generate incentives to reduce basic assistance.

- **Ultimately, the welfare reform debate in Congress may come down to a question of "compared to what?" While the Administration's bill has serious deficiencies, there are also major respects in which it is superior to other "two years and work" models pending before Congress. There are many reasons to believe that uniform national application of a "two years and work" model is unwise, but if Congress determines to opt for such an approach, it will be crucial to focus on the differences between the pending plans.**

There are serious questions about the wisdom of the Administration's basic approach and about many details of the approach. No state has ever implemented the "two years and work" model and there is considerable reason to question the capacity of states to do so. If states were successful in meeting the requirements of the bill, the effect could be an expanded welfare bureaucracy, reduced access to education and training, and the operation of a WORK Program that could have the overall effect of increasing poverty. The decision to seek nationwide implementation of an idea that has never been tested is a political judgment that cannot be justified on policy grounds.

This is a crucial time to step back and ask whether nationwide implementation of the "two years and work" model makes sense. A set of small demonstrations has already been approved through the waiver process. For the country as a whole, alternative welfare reform approaches may offer a better way to promote work without imposing needless rigidity and bureaucracy, without so drastically curtailing state flexibility, and without risking an unraveling of the basic safety net for poor families with children.

At the same time, it is also important to distinguish among the pending "two years and work" bills. The welfare reform debate may come down to "compared to what?" If one compares the Work and Responsibility Act to other "two years and work" bills, it is clear that the bill reflects a great deal of serious thought about how to design a system which preserves the JOBS structure, provides jobs so long as individuals meet program requirements, and reflects a commitment to paying those who work at least the minimum wage. While the good cause and extension provisions are deficient, at least this bill contains good cause and extension provisions. While the approach will restrict access to education in the JOBS Program, at least it preserves a state duty to provide education in the JOBS Program. While the WORK

Program leaves its participants in poverty, at least the bill provides for payment of the minimum wage - the principal Republican alternatives simply require individuals to work 35 hours a week in return for their current AFDC grant level. While the WORK Program only assures a \$120 earnings disregard, it does preserve AFDC eligibility for those who are so poor as to still qualify.

Some of the most troubling features of the Administration's bill - e.g., the sanction structure, the restrictive deferral and extension provisions, the denial of the EITC and potential denial of earnings disregard to WORK participants, the reward and penalty structure for states - could conceivably be modified during the legislative process. While other concerns would remain, such improvements could address some of the ways in which the bill seems most likely to harm affected families.

In the months to come, there are two separate discussions that need to occur: one involves the wisdom of national implementation of the "two years and work" model as compared with other approaches to welfare reform. The second involves comparing the pros and cons of the alternative "two years and work" models, acknowledging the important differences, and exploring how to address the most serious deficiencies in the Administration's bill. The details between the approaches vary tremendously, and the debate is only beginning.

Appendix: JOBS and Work Funding - The Details

The Administration's bill would make a number of changes in the details of JOBS funding and JOBS participation rate calculations. It would also create a new WORK funding stream, along with penalties for failure to meet the WORK participation standard.

JOBS Funding: The bill would change the match rate formula and the amount of the capped entitlement available for JOBS spending. Under current law, state JOBS spending is matched at one of three federal match rates under a complicated formula;²⁷ under the bill, states would have a single federal match rate, which gradually increases to the higher of the state's Medicaid match rate ("FMAP") plus 10 percentage points, or 70%.²⁸ This would be called the "enhanced FMAP". (Expenditures for AFDC Child Care, Transitional Child Care, and At-Risk Child Care would also be matched at the new enhanced FMAP).

To be eligible for the enhanced FMAP (for JOBS, WORK, and child care), a state would have to meet "statewideness" requirement and maintenance of effort requirements:

- To satisfy **statewideness** requirements, the state would have to be either be operating its program statewide, or have submitted an approvable plan amendment that provided for implementing all statutory JOBS requirements and meeting statewideness requirements within two years of initial implementation. For these purposes, a statewide program would be one in which the time limit requirements were being applied to at least 90% of custodial parents in the mandatory phase-in group (i.e., young parents) who were not entitled to deferral status. Note that for these purposes, "statewide" is not based on geographical coverage, but rather on the number phased-in.
- To satisfy **maintenance of effort** requirements, the state's nonfederal share of expenditures for JOBS, WORK, AFDC Child Care, Transitional Child Care, and At-Risk Child Care must be not less than the state's nonfederal share for FY 94 (or, if greater, FY 93).

The amount of the JOBS capped entitlement is currently scheduled to rise to \$1.3 billion in FY 95, and then drop to \$1 billion for subsequent years. Under the bill, the amount of the JOBS capped entitlement would rise to reach \$1.9 billion in FY 99.

JOBS Participation Rate: Under the bill, the JOBS participation rate calculation would differ from current law, and the consequences of failing to make or exceeding the rate would also be different. Under current law, states must meet a particular rate (15% in FY 94, 20% in FY

²⁷ Generally, a limited part of the state spending is matched at a 90-10 rate; the remainder of the state's program costs are matched at the higher of the state's Medicaid match rate or 60%; and costs for administration, transportation and other non-child care supportive services are matched at 50-50.

²⁸ For example, in FY 2000, a state with a Medicaid match rate of 50% would have a JOBS match rate of 70%; a state with a Medicaid match rate of 65% would have a JOBS match rate of 75%.

95), and may be penalized for failure to reach the rate; the penalty, if applied, is a drop in the state's JOBS match rate to 50%.

Under the bill, a state would be rewarded for a participation rate exceeding 55%, and penalized for a rate falling below 45%.

- The participation rate **numerator** would be made of participants from the phased-in group (but not including deferred individuals who are participating as volunteers); employed individuals meeting the state's minimum work standard; and individuals being sanctioned.
- The participation rate **denominator** would be all members of the phased-in group subject to time limits.
- A state **falling below 45%** would be penalized by having the federal match rates for AFDC reduced by 25% for the number of individuals by which the state failed to meet the required rate.
- A state **exceeding 55%** would receive additional federal funding without a required state match; the amounts available for these bonus payments would come from the penalties imposed on other states for failing to meet JOBS and WORK participation rates, or exceeding caps on good cause deferrals or extensions and from other funds reserved for the Secretary's use. However, a state would not be eligible for these bonus payments if the Secretary determined the state was not accurately counting months for purposes of 24 month clocks, or not otherwise reporting or recording required data.
- **Participation** would be defined by regulation.

WORK Funding: There will be two separate funding streams for the WORK Program:

- **WORK wages and wage subsidies** would be matched at the state's Medicaid match rate.
- **Other WORK expenditures** would be matched at the "enhanced FMAP rate" used for the JOBS Program.

The state's share of the WORK capped entitlement would be based on the state's number of persons subject to the time limit and subject to the requirement to participate, and the average monthly number of individuals registered for WORK.

WORK Participation Standard: The state would be penalized if it did not reach a required WORK participation standard each year. The WORK standard would be considered met if either:

- The state met a standard established by the Secretary for an average monthly number of WORK registrant assignments, with the number to be calculated based on the amounts

available under the capped entitlement and the Secretary's determination of the amounts necessary to locate or create WORK positions. (This appears to mean that the Secretary would determine the likely cost of creating a WORK position, divide the allocation by that amount, and the result would be the number of positions the state would be required to generate).

- Alternatively, the state would need to meet an 80% participation standard. For purposes of this standard, the denominator would be the sum of the average monthly number of individuals registered with the WORK Program and the average monthly number in unsubsidized employment and not receiving aid (but who were participating in the WORK Program at some time in the preceding three months). The numerator would be comprised of the average monthly number of individuals assigned to WORK positions; participating in job search after a WORK position, but for not more than three months; being sanctioned; or in unsubsidized employment and not receiving aid (but who were participating in the WORK Program at some point in the preceding three months).

Other Provisions: The amount of the overall capped entitlements for JOBS, WORK, and At-Risk Child Care would be increased if the nation's unemployment rate exceeded a specified level.²⁹

A state could shift up to 10% of its JOBS funding to WORK, or vice versa.

A state could also apply to use up to 10% of its JOBS and WORK funding to administer programs of training and employment for non-custodial parents. Such costs would be matched at the enhanced FMAP rate.

The Secretary would be required to make available unobligated JOBS and WORK funding to those states which had obligated their full capped amounts; the excess funds would come available at the state's applicable JOBS/WORK match rate. A state eligible for these funds could claim them at an enhanced match rate if the state's unemployment rate exceeded a specified level.³⁰

Penalties for exceeding limits on deferrals, time limits, JOBS participation standards, and WORK participation standards would not be imposed in the first year for which the respective requirements were applicable.

²⁹ If the average rate of total unemployment in the United States equaled or exceeded 7% for the last two quarters of the prior fiscal year, or the first two quarters of the current fiscal year, then the capped amounts would be raised by 2.5% plus an additional .25% for each .1% by which the average rate of total unemployment for the United States exceeded 7% for the two quarter period.

³⁰ Note, however, that exceeding that level would not result in an overall reduction in the state's match rate; it would only affect the match rate for the funds drawn down in excess of the state's capped entitlement.

JOBS and WORK Capped Entitlements Under Work and Responsibility Act			
Year	JOBS Capped Amount (Not including child care)	WORK Expenditures (Other than Wages and Child Care)	Federal Match Rate
FY 96	\$1.75 billion	-----	Higher of 65% or FMAP plus 5 percentage points
FY 97	\$1.7 billion	-----	Higher of 65% or FMAP plus 5 percentage points
FY 98	\$1.8 billion	\$200 million	Higher of 67% or FMAP plus 7 percentage points
FY 99	\$1.9 billion	\$700 million	Higher of 69% or FMAP plus 9 percentage points
FY 2000	\$1.9 billion	\$1.1 billion	Higher of 70% or FMAP plus 10 percentage points
FY 2001	\$1.9 billion	\$1.3 billion	Higher of 70% or FMAP plus 10 percentage points
FY 2002	\$1.9 billion	\$1.4 billion	Higher of 70% or FMAP plus 10 percentage points
FY 2003	\$1.9 billion	\$1.6 billion	Higher of 70% or FMAP plus 10 percentage points
FY 2004	\$1.9 billion	\$1.7 billion	Higher of 70% or FMAP plus 10 percentage points
FY 2005	\$1.9 adjusted for inflation	\$1.7 adjusted for inflation, multiplied by "WORK program factor" ²¹	Higher of 70% or FMAP plus 10 percentage points

²¹ The WORK Program factor is intended to adjust for the size of the WORK Program over time. It is difficult to interpret precisely how it would be calculated; under the bill, the WORK Program factor is defined as the ratio of: a) the sum of the average monthly number of recipients in the phased-in group because born after 1971 and WORK registrants (who are not receiving aid) for months in the preceding fiscal year, divided by the sum of the average monthly number of all AFDC recipients and WORK registrants (who are not receiving aid) for months in the preceding year; to b) the quotient with respect to the average monthly number for months in FY 2004.

JODIE LEVIN-EPSTEIN
SENIOR STATE POLICY ANALYST

July 20, 1994

Dear Colleague:

CLASP is hosting two "audio conferences" in August regarding welfare reform. We will discuss the Matsui bill, H.R. 4767, on Friday, August 5 from 1:00pm - 2:00pm Eastern Standard Time (EST--the time in Washington, D.C.) to provide some details about the what the bill contains and how it compares to the Clinton bill. A panel will discuss the teen parent provisions in the Clinton bill on Thursday, August 11 from 4:00pm - 5:00pm EST. You are invited to join in.

The first conference, August 5, will discuss "The Matsui Welfare Bill: An Envable Model." Three panelists will provide a description of how the bill addresses education and training, job creation, child care and child support issues. Susan Steinmetz of the Center on Budget Policy Priorities, Mark Greenberg of CLASP; Elisabeth Donahue of National Women's Law Center, and a child care speaker (TBA) will each present for 10 minutes. After each presentation, there will be time allowed for "q&a."

On August 11, the conference will discuss "The Administration's Welfare Bill: Teen Pregnancy Prevention and Teen Parents." Panelists will present an overview of the Administration's teen parent provisions, comments on teen parent pregnancy prevention provisions, and an analysis of the teen parent requirements, case management, and youth phase-in. The three panelists will include Jodie Levin-Epstein of CLASP, Chris Moore of Child Trends, and Mary Bromel (invited) of Portland Public Schools. The panelists will take questions after presenting.

To "ask" a question just send in the attached form. We encourage you to send back this form immediately so we can try and address what is on your mind. During the audio conference, you can fax a question to CLASP; however, we have only one fax line so it may be difficult to get through immediately. These questions will be read aloud by the panelists. In this audio conference format, the audience can not be heard, only the panelists can.

The total cost of your participation in the audio conference is \$30. You will not be charged anything else by the telephone company since the \$30 fee provides you access to a toll-free number that you call for the audio conference. If your office has a speaker phone, your \$30 will allow you to hook up through the speaker phone and as many people as you want to listen in, can do so. However, for each phone line that you plan to use, you need to send in \$30. CLASP pays for the administrative costs of the call.

If you would like to participate in the audio conference, here's what you need to do:

Registration:

We must receive your registration form and fee in our office by Tuesday, August 2 for the Matsui bill conference on Friday, August 5, and by Monday, August 8 for the teen parent conference on Thursday, August 11. You should call 1-800-841-3581 at least fifteen minutes before the conference is scheduled to begin. If you have not registered with CLASP by that time, the phone company will not connect you to the audio-conference.

Getting Your Questions Asked:

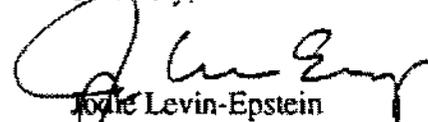
The registration form has space on which you can write questions that you would like posed to the panel. Mail that form along with your registration. During the presentation you can also fax questions to CLASP (202) 328-5195.

Hold on To This Letter:

You will not receive a reminder about the audio-conference, so please keep this information and the phone number handy (1-800-841-3581). *If you have any questions in advance, please call Monica Vaca on 202/328-5140.*

Enclosed please find a "comments" form for you to send back after the audio conference. This will help us decide whether to go forward with more audio conferences.

Sincerely,


Jodie Levin-Epstein
Senior State Policy Analyst

Ene.

AUDIO CONFERENCE REGISTRATION and Q&A FORM

**Registration for "The Matsui Welfare Bill: An Envable Model,"
Friday, August 5, 1994**

Name: _____

Organization: _____

Address: _____

Tel: _____

Fax: _____

Enclosed you will find my \$30 payment for the audio conference made out to CLASP.

This registration form and payment must be received at CLASP by Tuesday, August 2. State agencies unable to cut checks in time may submit registration form with notation indicating when the check should arrive. Please mail to CLASP; attn: Monica Vaca/audio conference, CLASP, Suite 150, 1616 P Street, NW, Washington, DC 20036, or fax to 202/ 328-5195.

Some Questions for the Panel:

1. About education and training, job creation, and benefits:
2. About child care provisions:
3. About child support:
4. About the political climate and other:

AUDIO CONFERENCE COMMENTS FORM

"The Matsui Welfare Bill: An Envable Model."

August 5, 1994

Optional:

Name : _____

Organization: _____

Address/State: _____

Tel: _____

COMMENTS:

1. I think you should/should not do more audio conferences on welfare reform:
2. What I **liked** about the audio conference:
3. What I did **not like** about the audio conference:
4. I would like an audio conference on the following topic(s):

Please mail to CLASP; attn: Alexander Hadel, CLASP, Suite 150, 1616 P Street,
NW, Washington, DC 20036

AUDIO CONFERENCE REGISTRATION and Q&A FORM

Registration for "The Administration's Welfare Bill: Teen Pregnancy
Prevention and Teen Parents."

Thursday, August 11.

Name: _____

Organization: _____

Address: _____

Tel: _____

Fax: _____

Enclosed you will find my \$30 payment for the audio conference made out to CLASP.

This registration form and payment **must be received at CLASP by Monday, August 8.** State agencies unable to cut checks in time may submit registration form with notation indicating when the check should arrive. Please mail to CLASP; attn: Monica Vaca/audio conference, CLASP, Suite 150, 1616 P Street, NW, Washington, DC 20036, or fax: 202/ 328-5195.

Some Questions for the Panel:

1. About pregnancy prevention demonstrations:
2. About the teen parent residency requirement and education requirements:
3. About case management and youth phase-in:
4. Other:

THE LIMITED, INC.

THREE LIMITED PARKWAY
COLUMBUS, OHIO 43230
TEL 614 479 7000

SAMUEL P. FRIED
Vice President
and General Counsel

Cynthia, before
Welfare
Welfare-to-work

February 20, 1997

Mr. Bruce Reed
Assistant to the President for Domestic Policy
The White House
1600 Pennsylvania Avenue, N.W.
213 Old Executive Office Building
Washington, D.C. 20502

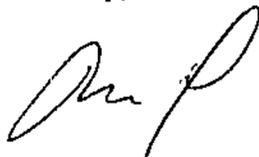
Dear Bruce:

Warm congratulations on your recent appointment as director of the President's Domestic Policy Council!

I look forward to meeting with you soon to share some thoughts on economic policy, and what The Limited can do to support the President's welfare-to-work initiative.

With best wishes for success in this important position.

Sincerely,



Samuel P. Fried

WR - welfare to work

WELFARE TO WORK

What is Known With Certainty

- It is a \$3 billion capped mandatory spending program, with funds available for three years as follows: FY 1998, \$750 million; FY 1999, \$1 billion; FY 2000, \$1.250 billion (1998 Budget).
- It is "performance-based" and intended to move 1 million people from welfare to work by 2000 through job placement and job creation.
- The funds are requested in the Department of Labor, which will administer the program.

What is Not Yet Determined

• Process Questions:

- Will the Administration will transmit legislation, legislative specifications, principles?
- Is it a Ways and Means/Finance issue or a labor committee issue?

• Program Design Issues:

*Labor vs. HUD
Mayor vs. Gov split*

Goodling

- Is this a formula grant or competitive grant? If competitive, is it a saturation model in fewer than 20 sites? If formula, on what basis?
- Who are eligible grantees -- States, cities, or counties, or all? If cities, is it 150 or 100 (or some other numbers); what is the relationship between the cities/mayors and the State?
- Who is an eligible "long-term welfare recipient"?
- What constitutes "success" for receiving the "bonus payment"? Does placement in a public job (not a workfare slot, but a municipal job) count as a successful placement?
- May this \$3 billion be used for workfare and/or subsidized public sector jobs?
- What is the application process and the Federal role in the plan approval process? Are the Federal plan specifications loose or restrictive?
- What is the sanction for poor performance?

To: Bruce Reed cc: Elena Kagan
From: Lyn Hogan Diana Fortuna
Date: February 20, 1997
Re: Stenholm/Tanner Welfare Reform Proposals

Stenholm/Tanner are proceeding on two separate welfare reform tracks: 1) a Blue Dog Coalition budget proposal, and 2) non-coalition welfare reform legislation sponsored by Stenholm and Tanner.

Blue Dog Budget

Some time next week (week of 2/24) the Blue Dog group will release its budget which will include a \$3.6 billion set aside reserve fund for broadly defined welfare to work activities. States will receive these funds *only if* they need extra money to meet the work requirements.

Stenholm/Tanner Bill

Shortly after the Blue Dogs release their budget, Stenholm and Tanner will introduce separate free standing welfare reform legislation. The legislation will likely be three part: 1) the welfare to work proposal you've seen, 2) food stamps for 18-50 year olds, and 3) a phase-out of the dependent care tax credit for higher income folks in favor of a refundable tax credit for those in lower-income brackets. However, the welfare to work language would represent the crux of the proposal.

Political Outlook

Stenholm and Tanner haven't shopped the welfare to work legislation around yet, but they have had some general and positive conversations with Democrats and Republicans including Johnson, Morella, Castle, Ramstad, and Greenwood. They have also had positive preliminary discussions with Govs. Carper and Bush. The Stenholm/Tanner strategy for both the budget and the legislation is to force governors to both ask for this money and to drum up support for it.

There are no other major welfare to work proposals in the House or Senate. Daschle's office (Grace) has not designed specific legislation but is happy to work with both the White House and Tanner/Stenholm and is waiting for direction from us.

Summary of Stenholm/Tanner Welfare to Work Proposal

- \$3.6 billion over five years for private sector-based welfare to work programs to be administered through a public-private partnership.
- Eighty percent of the funds would be distributed to states, 20 percent in grants to cities and communities.

States

- A state may apply for funds if: the state meets some general state plan requirements; if total state spending on work programs in the prior fiscal year exceeded state spending on JOBS programs in FY 1996; if a state certifies it needs additional funds to meet the TANF work requirements; and if a state has met its program performance goals in the prior year or has a corrective actions planned. 100% POC
- Seventy percent of state funds would be allocated based on the state percentage of the national TANF and food stamp caseloads covered by work requirements.
- States would receive \$2,000 for each projected job placement
- A 20 percent state match would be required for the basic funds only (not performance funds). 20% match
- Thirty percent of the state funds would be paid based on performance measures including the unemployment rate in the area of placement, the length of time a person has been on assistance, barriers to employment, and earnings of the person placed. No state match is required.
- Funds may be used for job placement vouchers; contracts with placement agencies or public job placement programs; work supplementation in private sector jobs; job creation; microenterprise, and; support services for the first six months of employment.

Grants to Cities and Communities

- The Secretary of HHS may make grants to communities for innovative welfare to work programs that move welfare recipients into private sector work. demos
\$720m
- Grants up to \$10,000,000 will be awarded on a competitive basis in a way that will leverage private funds as well as state and local resources.
- Preference will be given to organizations which receive more than 50 percent of their funding from the state government, local government or private sources.
- Twenty percent of the funds will go to cities with populations greater than 1,000,000; 25 percent to cities with populations between 250,000 and 1,000,000; and 25 percent to cities with populations under 250,000. = 65% ?

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210



January 31, 1997

NOTE FOR: GENE SPERLING
~~BRUCE REED~~
MIKE SMITH
KEN APFEL
JOSH GOTBAUM
ALICIA MUNNELL

FROM: TIM BARNICLE *TB*

SUBJECT: Employment Councils

In his January 28 press conference, the President mentioned that if every community in the country set up an employment council like that in Kansas City, it would help very significantly in meeting the requirements of the welfare reform bill. (See attachment.)

The Kansas City Council mentioned by the President is a Private Industry Council established under the Job Training Partnership Act. We have 640 of these business-led councils in place that encompass every community in the country. Under this Administration they have played a critical role in the key reforms we have initiated -- e.g., One-Stop, School-to-Work, etc. -- and could do so again under welfare reform.

Council membership includes 9,000 plus business volunteers as well as representatives of labor unions, schools and colleges, community-based organizations and other agencies. These councils oversee the training and placement into jobs of welfare recipients, other low income adults and youth, and dislocated workers. They also play a significant oversight role for localities engaged in building One-Stop Career Center and School-to-Work systems.

These employment councils have evolved since 1979, and many are outstanding. As with any nationwide infrastructure, the performance of councils is in some places at some times less than great, but by and large, they do a very good job. A strong, organized, and experienced private sector role is critical to the success of the Welfare-to-Work challenge, and I was particularly pleased to hear the President recognize these councils for the key role in moving people from welfare to work.

Attachment

cc: Cynthia Metzler
Kitty Higgins

January 28, 1997

PRESS CONFERENCE OF THE PRESIDENT

2:30 P.M. EST

THE WHITE HOUSE
Office of the Press Secretary

For Immediate Release

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East Room

2:30 P.M. EST

THE PRESIDENT: Good afternoon. Please be seated. Before I take your questions, I would like to make a brief statement about the balanced budget that I will send to Congress next week.

This budget shows that we can meet two of our most crucial national priorities at the same time. It proves we can protect our children from a future burden by reckless debt even as we give them the educational opportunities they need to make the most of the 21st century.

The budget finally moves us beyond the false choices that have held us back for too long and shows that we can cut our debt and invest in our children. The budget will help to renew our public schools. It will expand Head Start, help rebuild crumbling classrooms. It will double funding for public charter schools, giving parents more choice in how they educate their children. It will increase funding for Goals 2000 by 26 percent. And it will help our students to reach high standards and master the basics of reading, writing, math and science.

It will also enable us to connect our schools and our libraries to the Information Superhighway. The budget more than doubles our investment in technology to hook our children up to computers and the Internet and it increases by one-third our investment in partnerships with teachers and industries to develop quality educational programming and technology. In short, the budget will connect our children to the best educational technology in the world.

It will also open the doors of college education wider than ever before. I'd like to take a minute now simply to outline

about the entire process?

THE PRESIDENT: Well, to answer your first question, I'm going to take Bob Dole's advice because that's a decision for the Attorney General to make. And to answer your second question, yes, healthy skepticism is warranted. But keep in mind, I would say to the skeptics, the vast majority -- indeed, a huge percentage, way, way over 90 percent -- I don't know what it would be -- the vast majority of the money that was raised by both the Democrats and the Republicans was raised by -- in a perfectly lawful fashion, completely consistent with the requirements of the law. The vast majority of the people who gave money to both the Democrats and the Republicans were people who believed passionately in the course that those two parties were pursuing and the candidates and what they were trying to do, and to their House committees and their Senate committees.

The problem is that the margins create great problems because of the sheer volume of money that is being raised today. As I said before, it's too much money, takes too much time to raise, raises too many questions. And the cynicism is well -- and the skepticism is well-founded. If it becomes cynicism then it removes the incentive on the part of the Congress to pass campaign finance reform because cynics will say it won't make any difference anyway.

If you look at the present campaign laws, I think you can make a compelling case. I have not heard this point made, but I believe it to be true. I believe when these reforms arose out of the Watergate thing back in the mid '70s, I think they worked pretty well for several years. I believe they elevated the reputation of politics and I think the reforms worked pretty well.

What happened is, no system in a world changing like ours can be maintained indefinitely, because the economy changes and particularly -- look at how your work has changed. When you travel with me, you carry these little computers around and you run these pictures up on computers and you send them from the plane somewhere else. I mean, just think of all the things that have changed. This system has not been fixed in over 20 years. During that 20 years, there has been an explosion in ways of communicating with people, and an exponential increase in the cost of communicating. And a system which I would argue to you really worked pretty well, after it was passed in '74 and going forward has been overtaken by events.

So, cynical, no; healthy skepticism, you bet. We should always be skeptical. But we need to change the system. It's got to be -- it's just outdated.

Q Mr. President, what specific mechanisms do you plan on working with the private sector in terms of creating more welfare jobs for people who are on welfare?

THE PRESIDENT: Primarily two. One, I will offer a special tax incentive -- there was a story about it today, I think in The New York Times -- a special tax incentive. It will be a 50-percent credit for up to \$10,000 a year in pay for people who are clearly, provably hired from welfare and put into new jobs.

Secondly, we have given the states -- and there was a story, I think, in the Post today talking about how a lot of the states are trying to push this down to the community level -- that's good, that's not bad, that's good, as long as they give the

communities the means they need.

The second thing is that every community should know that the employers in that community, if they hire people from welfare to work, can get what used to be the welfare check for at least a year to use as an employment and training subsidy. Why? The welfare rolls have gone down \$2.1 million in the last four years; it's the biggest drop in history. I think a fair reading of it would say about half of this decline came from an improved economy, and about half of it came from intensified efforts to move people from welfare to work. Now, I don't have any scientific division, but anyway, there's some division there.

The rest of the people that are on welfare now, by and large, are people who will be more difficult to move from welfare to work and stay there. So I think we're going to have to give some incentives. But if it works and if every community in the country would set up an employment council and turn this into a family and an employment program like Kansas City, and all employers have those two incentives, I think we'll be able to meet the requirements of this welfare reform bill in a way that will be good for the people on welfare and good for their kids.

Kathy.

Q Mr. President, the Chairman of the House Ways and Means Committee over the weekend laid down some markers for what he thinks would create chances for your budget to be alive on arrival on the Hill. On welfare one of the things he mentioned was increased spending for legal immigrants, and he said he hoped you wouldn't insist on it. How do you deal with that in your budget, and will you continue to insist on it?

THE PRESIDENT: Let me say, I like Mr. Archer very much and we've had a good relationship, and I appreciate what he said about me meeting him halfway on Medicare. But there have been reports in the last couple of days about Republican governors with high immigrant populations coming back to their Republican congressional leaders and saying, please reconsider this.

My budget will contain funds and propose changes consistent with the promises I made when I signed the welfare reform bill and when I campaigned to the American people on this issue. I believe that the bill is counterproductive in the way it treats legal immigrants, who through no fault of their own wind up in desperate circumstances and in other ways that I think are not good for families and children.

So I will propose some changes. And I hope that when we get all through here -- again, I hope this will be treated just like the budget issue -- I would ask our friends on the Republican side and the Democrats who care as passionately about this as I do to keep our powder dry. Let us make our case on the merits. Let them hear from the Republican governors of places like Texas and New York that have these huge immigrant populations of good people that are making great contributions to this country, that are working like crazy and making this a better place, and listen to the practical impact of the law that's now there on the immigrant population. And I'm not sure we can't get some changes. I'm very hopeful that we can, and I'm going to give it my very best effort.

Q Mr. President --

THE PRESIDENT: Wait a minute, I'll take a couple of more. Just a minute.

THE WHITE HOUSE

Bruce - Here is an idea worked up by NPK
| staff + some DPC staff for a "Son of
| Local Flex" bill.

I think it's great + I'd like to be
able to have the V.P. say something about
it in his NGA speech Monday. Can you
get back to me on this? Could have a photo?

p.s. Elena Kaoun has seen this. Thanks Elaine

Welfare to Work Flexibility Act
1-29-97 Draft

Purpose:

Allow States and localities broader flexibility to achieve results in transitioning low-income people into the workforce, maintaining people in the workforce, and protecting the well-being of their children to assure their development into healthy and productive adults. Flexibility would be provided in a broad range of education, labor and human service programs to cut red tape and to allow more efficient and effective use of funds.

Principles:

- Promote better use of existing funding and resources; now new funding and no reduction of funding
- Link flexibility under this program to states achieving measurable results in three critical areas: transitioning low-income people to the work force, maintaining them in the work force, and preparing their children to participate fully in society as workers and citizens
- This is not a block grant to states. Rather, existing categorical programs would remain in place, but states and localities would have the option of combining some of their funds and requirements between and among programs in order to make government work better and cost less.

Programs Which States/Localities Could Include in their Flexibility Plan:

The core criteria are that flexibility plans could include federal grant programs that go to states that are: (See Attachment 1 for a listing of programs that might be included.)

- have as their purposes getting low-income adults into the paid workforce, maintaining their participation in the workforce, and preparing their children to participate fully in society as workers and citizens.
- administered by the Departments of Labor, Education, and Health and Human Services and funded through the Labor-HHS-Education Appropriation Subcommittee.
- [needs-based, i.e., where income is a criteria??] grant programs that currently go to States either by allocation formula or by competitive application. Federal entitlement programs can not be included in the flexibility plan.

Scope:

- 6 State Demo: This is a demonstration program that will be limited, at least initially, to six States (3 urban, 3 rural--use size criteria from Local Flex bill) through competitive application linked to the state's welfare to work plan.
- The General Accounting Office will conduct a comprehensive evaluation, and, after five [three?, four?] years, recommend whether the Congress should eliminate this flexibility or expand it to all states.
- SubState: States would in turn provide flexibility to localities, but would have the option of providing flexibility statewide or targeting the flexibility to portions of the States. States would describe which of these they chose and why as part of the competitive application process.

Flexibilities Provided:

[An alternative to the three pieces listed below is a simpler Ed-Flex, Labor-Flex version to make similar to flex authority in other areas]

- **Funding Flexibility:** States/localities could choose to transfer up to 25 percent of total funds from programs in the flexibility pool to any allowable activity under any other program(s) within the flexibility pool.
- **Duplicative and Conflicting Requirements Flexibility:** Waiver authority would be given to the Secretaries of Labor, Education and HHS which they would then delegate to the selected demonstration states. The delegated waiver authority would be for the purposes of eliminating duplication and conflicting requirements in the areas of eligibility, planning, applications, reporting, information sharing, administrative overhead (e.g., caseworkers for each separate program). As with

Ed-Flex and Work-Flex states, once a state is selected as a welfare to work flex demonstration site and waiver authority is delegated, the state would not have to come back to the Departments of Labor, Education or HHS for further approval but would inform the departments of the flexibilities they are providing.

- **Other Flexibilities to Make Government Work Better and Cost Less:** The Secretaries of Labor, Education, and HHS would be given broad statutory and regulatory authority to approve state requests for additional waivers and flexibilities that do not fall under the terms of the delegated waiver authority but are related to reforms to make government work better and cost less.

Exemptions:

No waivers/flexibilities would be allowed in the areas of civil rights, fair labor standards, environmental and public health standards, worker safety, and use of education vouchers. [NOTE: Use first Administration list from Local Empowerment and Flexibility Act, plus exclude education vouchers.]

State Applications:

To compete to be one of the six welfare to work flex states, a state would need to submit an application which:

- describes which of eligible programs would be part of the state's flexibility pool
- includes a flexibility plan linked to the state's welfare to work plan, which describes new use of funds and what other flexibilities are required
- describes how results are likely to be improved under the flexibility plan compared to current categorical funding streams and requirements
- lays out which results will be measured and tracked and how. Attachment 2 includes a partial list of results a state might focus on.
- describes what federal waivers and flexibility are needed to implement flexibility plan to achieve better results
- describes what state and local waivers and flexibility will be granted to achieve better results
- describes how the state will track, audit, and report to the federal government use of funds and flexibilities provided

Administrative Application and Approval Procedures:

- An Interagency Team led by the Domestic Policy Council or the National Economic Council with representatives from DPC, NEC, the Office of the Vice President, the Office of Management and Budget, and the Departments of Labor, Education, and Health and Human Services will guide the development of a federal request for applications, the selection of the demonstration sites, and implementation of this Act.
- Delegation of waiver authority for duplication and conflicting requirement flexibility: The selected states would be delegated waiver authority to reduce duplication and conflicting requirements in the areas of eligibility, applications, reporting, information sharing, and administrative overhead. States would report to federal agencies on the use of this authority.
- Additional federal agency waiver authority: States would request additional waivers and flexibilities that do not fall into the areas of delegated waiver authority but which make government work better and cost less. States would submit these requests to the affected federal agency(ies). Individual agencies would then approve or disapprove of these requests. The Interagency Team led by the White House would intervene when a waiver request affected more than one federal agencies and those agencies disagreed.

Evaluation and Reporting:

- States would track and audit use of funds and flexibilities provided and report to the federal government through each and all of the three affected federal agencies.
- Using the demonstration sites as learning labs, federal agencies and the Congress will use information on flexibilities provided to assess and implement changes which make sense for all states.

- GAO would evaluate the six demonstrations and recommend to Congress whether or not to extend these flexibilities nationwide. At year five, Congress would consider legislation to expand these flexibilities nationwide.

Legislative Vehicle:

- Attach to Labor-HHS-Education Appropriations Bill (one alternative is a free standing bill through Government Operations)
- Strong Presidential and Vice Presidential support/leadership will be needed to get buy-in from agencies, OMB, congress, and constituents
- Need to work with Big 7 intergovernmental organizations, especially the National Governors Association and the National Conference of State Legislatures
- Need to work with those who opposed the Local Empowerment and Flexibility Act (e.g., OMB Watch, the National Education Association)

Potential Federal Programs States/Localities Could Choose to Include in their Flexibility Plans

READY TO LEARN

HHS:

- Child Care and Development Block Grant
- State Dependent Care Development Grants
- Child Development Associate Credential Scholarship
- Maternal and Child Health Block Grant
- Childhood Immunization Grants
- Healthy Start
- Pediatric Emergency Medical Services
- Childhood Lead Poisoning Prevention
- Children's Mental Health
- Education:
- Even Start
- IDEA Infants and Preschool
- America Reads?

YOUTH DEVELOPMENT

HHS:

- Independent Living
- Youth Gang Substance Abuse
- Runaway and Homeless Youth Programs (basic centers, drug abuse prevention, transitional living)
- National Youth Sports
- Adolescent Family Life
- High Risk Youth
- Violent Crime Control and Law Enforcement Act of 1994 Title III (Community Schools Youth Service and Supervision Grant Program)
- Education:
- Drug Free Schools and Communities
- Violent Crime Control and Law Enforcement Act of 1994 Title III (Family and Community Endeavor Schools Grant Program)

Labor:

- Job Training Partnership Act (Summer Youth Employment and Training Program, Year-Round Youth Program, Youth Fair Chance, and Job Corps)

CHILDREN AND FAMILY SERVICES

HHS:

- Social Services Block Grant
- Community Services Block Grant
- Temporary Child Care and Crisis Nurseries
- Child Welfare Services
- Adoption Opportunities
- Abandoned Infants
- Child Abuse State Grants
- Child Abuse Demonstrations
- Child Abuse Prevention, Substance Abuse
- Family Violence Programs
- Family Preservation and Support Program
- Family Support/Resource Centers

LIFELONG LEARNING AND EDUCATION

Labor:

- JTPA Formula Grants to States (Title IIA for Adults, Title III for Dislocated Workers?)
- JTPA Federally Administered Programs (Migrant Farmworkers Program, Labor Market Information, NOICC/SOICC State Occupation Information Aid, American Samoans/Asian Americans, Veterans employment, Rural Concentrated Employment Program, Pilots and Demonstrations, Research, Demonstration and Evaluation, Capacity Building)
- Unemployment Compensation?? (State Operations, State Integrity Activities, State Unemployment Insurance and Employment Service Operations)
- One-stop Career Center Grants)
- Employment Service (Allotment to States, National Activity-Targeted Jobs Tax Credit)
- Veterans Employment and Training (State Administration, Federal Administration)
- Community Service Employment for Older Americans (State Programs, National Contracts)
- Trade Act Adjustment Assistance Training and Benefits
- NAFTA Training and Benefits Program
- Skill Standards
- Women in apprenticeship
- Homeless Job Training

Education:

- Migrant Education (High School Equivalency Program, College Assistance Program)
- Vocational Education (Data Systems NOICC/SOICC)
- Student Financial Assistance (Pell Grants)
- Adult Education (State Programs, State Literacy Resource Centers, Workplace Literacy Partnerships, Literacy Training for Homeless Adults, Literacy Program for Prisoners)
- Vocational Rehabilitation (State Grants, Client Assistance Grants to States, Training, Supported Employment State Grants)
- Goals 2000 Educate America Act
- Title I: Helping Disadvantaged Children Meet High Standards
- Title II: Eisenhower Professional Development Program
- Title VI: Innovative Education Program Strategies
- Education Infrastructure
- Carl C. Perkins Vocational Education Act
- School to Work Opportunities Act
- Charter Schools
- Education, Research, Statistics, and Improvement
- Federal Goals 2000 Activities
- Technical Assistance for Improving Elementary and Secondary Education Programs
- Bilingual and Immigrant Education
- Inexpensive Book Distribution
- Arts in Education
- Law Related Education
- Christa McAuliffe Fellowships
- Foreign Language Assistance
- Title V: Programs to Promote Title V

HHS:

- JOBS??

SUBSTANCE ABUSE AND MENTAL HEALTH:

HHS:

- Substance Abuse Prevention and Treatment Block Grant
- Community Prevention
- Prevention Demonstration High Risk Youth
- Treatment Improvement Demonstration: Critical Populations
- Prevention Demonstration: Pregnant, Post-Partum Women and their Infants

- Treatment Demonstrations: (Target City Demonstration; Criminal Justice; Women and Children; and Comprehensive Community Treatment Programs)
- Residential Treatment for Pregnant Women
- Capacity Expansion Program
- Treatment Improvement Demonstrations: Campus Projects
- Mental Health Block Grant
- Projects for Assistance in Transition from Homelessness (PATH)
- Demonstrations: Community Support Program
- Protection Advocacy
- Demonstrations: Homeless Demonstrations

PUBLIC HEALTH AND PREVENTION

HHS:

- Community Health Centers Grants
- Linking Community-Based Primary Care, Substance Abuse, HIV/AIDS, and Mental Health Treatment Services
- Developmental Disabilities Projects of National Significance
- HIV Demonstration Program for Children, Adolescents and Women
- Family Planning-Service Delivery Improvement Research Grants
- AIDS Activities
- Preventive Health and Health Services Block Grant
- Occupational Safety and Health Research and Training
- Assistance Program for Chronic Disease Prevention and Control
- Project Grants and Cooperative Agreements for Tuberculosis Control Programs
- Community Partnership Demonstration Grants
- Preventive Health Services/Sexually Transmitted Disease Control Grants
- Cooperative Agreements for State Based-Comprehensive Breast and Cervical
- Epidemic Services
- Infectious Disease
- Centers for Research and Demonstration for Health Promotion and Disease Prevention
- Injury Prevention and Control Research and State Grants Projects
- Minority Community Health Coalition Demonstration
- HIV Demonstration, Research, Public and Professional Education Projects
- Prevention Centers
- Emergency Preparedness
- HIV/AIDS Surveillance
- Disabilities Prevention
- Comprehensive School Programs to Prevent the Spread of HIV and Important Health Problems
- Community Health Promotion
- Tobacco
- Prostate Cancer
- Childhood Lead Poisoning Prevention

HEALTH PROFESSION TRAINING

- Health Careers Opportunity Program
- Area Health Education Centers
- Programs of Excellence in Health Professions Education for Minorities
- Minority Health
- Health Professions Student Loans, including Primary Care Loans/Loans for Disadvantaged Students
- Minority Scholarships
- Nurse Practitioner/Nurse Midwife
- Exceptional Financial Need Scholarships
- Nurse Education Special Projects

- Public Health/Preventive Medicine
- Grants for Physician Assistant Training Program
- Scholarships for Health Professions Students from Disadvantaged Backgrounds
- Mental Health Clinical or Service Related Training Grants
- Interdisciplinary Training for Health Care for Rural Areas
- Nursing Education Opportunities for Individuals from Disadvantaged Backgrounds
- Area Health Centers - Border Health
- Health Professions Research and Data
- Health Administration Traineeships and Special Projects Programs
- Demonstration Grants to States for Community Scholarships

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Attachment 2

Labor-force attachment - This indicator focuses exclusively on the participation of an adult in the labor-market, without regard to whether means-tested assistance was received concurrently

Educational Attainment - Completed schooling is one indicator of job skills.

Low earnings - The economic condition of the low-skill labor is key to the ability of young adult men and women to support families without receiving means tested assistance. This indicator tracks trends in the earnings of jobs in that market

Adult/ parent alcohol and substance abuse - Parental alcohol and substance abuse is a risk factor for dependence and for adult and child well-being

The following are from the National Indicators report:

Secure Parental Labor Force Attachment - the percent of children with at least one resident parent employed full time, full year
periodicity - Annual

Child Poverty - The percent of children living in poverty, and under 50% and 150% of poverty line.

Other indicators may include Parenting Indicators which measure certain aspects of the relationship between parents and their children including child abuse and neglect, child support, child care and reading exposure.

Social Development Indicators - Teenagers are particularly susceptible to risk factors associated with future welfare dependence and negative well-being. This group measures the risks to teens through indicators such as the teen birth rate, early sexual intercourse and teen alcohol and substance abuse.

Welfare to Work Program

Section 481 State plan

(a) **Contents of state plan.** The state shall submit to the Secretary of HHS a plan which includes the following:

- (1) Identifies a public-private partnership with an employment focus to administer welfare to work program
- (2) Describe activities for placing welfare recipients into private sector employment
- (3) Provide assurances that all recipients receiving assistance under the program have the option of receiving a job placement voucher and will be informed about their options for using a job placement voucher.
- (4) Describe how welfare to work funds will be coordinated with other programs
- (5) Identify populations to be served by the program
- (6) Identify communities or regions within the state that will be served by the program and provide assurances that the state will target high poverty areas
- (7) Certification that the administering entity will comply with non-displacement rules
- (8) Certify that the administering agency will consult with local communities, counties, JTPA Service Delivery Areas, local employment agencies, etc. in administering the program.

(b) **Federal role.** The Secretary shall review state plans to determine whether it complies with this section. All plans that contain the information required in subsection (a) shall be approved.

Section 482 Grants for operation of welfare to work programs

(a) **Eligible states.** A state may apply for funds if:

- (1) It has a state plan for welfare to work that meets requirement of Section 481
- (2) Total state spending on work programs in the prior fiscal year exceeded state spending on JOBS programs in fiscal year in fiscal year 1996.

(b) **Contents of state application.** A state application must include:

- (1) Certification that the state needs additional funds to meet participation rates for TANF, provide employment for long-term TANF recipients, or food stamp beneficiaries.

- (2) (A) Certification that the state has met program performance goals in the prior year, or,
(B) For states that failed to meet program performance goals, a corrective action plan.

(3) Certification that welfare to work funds will supplement, not supplant, state funds or funds from other federal grants.

(4) The number of projected placements of recipients in private sector employment with the grant by category

(c) Payments to states

(1) 60% of the funds would be allocated to states with plans submitted under Section 481 based on the states percentage of the national caseload of TANF recipients and food stamp recipients covered by work requirements. States that did not submit plans meeting the requirements of Section 481 would not be eligible for funds, with the funds allocated to these states redistributed among the remaining states.

(2) States would receive \$2000 for each projected placement up to the state allocation.

(3) States which had failed to meet the program performance goals for two or more years would not receive any federal funds unless the state has a corrective action plan approved by the Secretary or provides the Secretary with a reason for the failure.

(d) Performance grants.

(1) In addition to the grants under subsection (c), the Secretary shall provide each state with an additional grant from the remaining 40% based on placements. The bonus payments will vary based on the unemployment rate in the area of the placement, the length of time the individual had been on assistance, barriers to employment, and the earnings of the individual placed. Bonus payments would be varied as follows:

(A) A basic \$1000 bonus payment for each placement of a long-term (18+ month) TANF recipient or individuals who have lost food stamp benefits because of the food stamp time limit/work requirement

(B) An additional \$500 bonus payment if the individual has one of a list of barriers to employment (lack of high school education, lack of basic skills, etc.)

(C) An additional \$1000 bonus payment if the individual placed is in an area with unemployment above 7%.

(D) An additional \$500 bonus payment if the earnings of the individual in the nine months following placement exceed 130% of poverty.

(E) An additional \$1000 bonus for individuals placed in new businesses created in areas of high unemployment / high poverty (to be defined) by leveraging public and private resources (i.e. tax abatement, etc.)

(2) If state claims for performance bonuses exceeds the total amount of funds available for performance bonuses, the Secretary shall make a pro rata reduction in the amount of each individual performance bonus.

(e) Appropriation.

(1) Provide a mandatory appropriation to (DOL or HHS) for this program of the following amounts:

1999 -- \$350 million
2000 -- \$1 billion
2001 -- \$1.1 billion
2002 -- \$1.25 billion

(Note: These amounts represent the work funding levels in Castle-Tanner, which were based on the escalating participation rates, plus CBO baseline for food stamp employment and training programs.)

(2) The funds would be available until expended.

Section 483 Use of funds

(a) In general. The funds shall be used to assist TANF recipients and food stamp recipients in obtaining and keeping private sector employment.

(b) Specific uses

(1) Job placement vouchers given directly to recipients that could be redeemed by job placement companies that successfully place the recipient in a private sector job that is held for at least nine months or by employers who employ the recipient for at least nine months.

(2) Contracts with placement companies or with public job placement programs (i.e. Riverside). The contract must provide that the majority of funds would be paid after the individual had been placed in unsubsidized private sector employment for nine months.

(3) Work supplementation in private sector jobs, with the subsidy period limited to six months.

(4) Microenterprises

(5) Supportive services (transportation, counseling, etc) during the first six months of employment for former TANF recipients who obtained private sector employment.

(c) Job Placement Vouchers

- (1) **Availability** All recipients would be eligible to receive a job placement voucher that could be redeemed by job placement agencies or employers who place the individual in private sector employment.
- (2) **Accreditation** The administering entity would accredit placement agencies and employers that were eligible to redeem job placement vouchers. The entity would establish reasonable standards (areas for standards?) for placement agencies and employers to be eligible, but could not establish standards that had the effect of limiting the choices available to recipients of job placement vouchers.
- (3) **Voucher rates.** States would set their own voucher rates. If the state provides for placement through contracts or other means in addition to vouchers, the voucher rates must be comparable to the payments for placements through these other activities.
- (4) **Redemption.** The state would set the terms for redemption of vouchers, but no more than 25%(?) of the voucher could be redeemed up front, and no more than 75% of the voucher may be redeemed until the recipient has been employed for nine (six?) months.

(d) Prohibited uses.

- (1) Funds couldn't be used to satisfy matching requirements under other programs
- (2) Funds couldn't be used to displace current workers
- (3) Funds couldn't be used to create public service jobs, except for areas (reservation?, county?) with unemployment exceeding (25%?, 50%?)

Section 485 Performance goals

The Secretary shall establish performance goals for states receiving assistance under this Part. The performance goals shall include:

- (1) Goals for the percentage of individuals receiving assistance to be placed in private sector employment. The Secretary shall calculate the goal for each state after taking into account the unemployment and poverty rates in the state, the number of TANF recipients in the state, the work participation rate for the state (after the pro rata reduction in the rates for the state) and the size of the TANF grant to the state relative to the state's caseload.
- (2) Goals for retention rates for individuals placed in private sector employment.
- (3) Goals for earnings of TANF or food stamp recipients placed in private sector employment.

Section 486 Interaction with TANF

- (a) Individuals who are receiving assistance under this section who lost eligibility for TANF because of earnings from employment shall be counted in TANF participation rates.
- (b) Assistance under this section shall not count toward TANF time limit

Section 487 Administration

- (a) **Authorization of appropriations.** Authorize such sums as may be necessary for grants to the public/private partnership designated by the state for administrative costs. Each state's share of administrative funds shall be based on the state's share of total mandatory funds paid under Section 483(a).
- (b) **Use of administrative funds.** Administrative funds could be used to develop and implement a job placement voucher program, administer contracts with
- (c) **Limitation on administrative funds.** Administrative expenditures shall not exceed 7% of total spending by the lead organization

WELFARE-TO-WORK JOBS INITIATIVE

Purpose

- o Provides assistance/incentives to cities, counties and States for placement and retention of long-term welfare recipients in jobs that lead to self sufficiency and reduce welfare dependency.

Funding Authorization and Distribution of Funds

- o WTW will be a capped mandatory spending program funded under the TANF block grant as a separate program.
- o Three year authorization: \$500 million in FY 1998; \$750 million in FY 1999; and \$750 million in FY 2000, for a total authorization of \$2 billion.
- Eighty-nine percent of the funds would be distributed by formula each year to eligible applicants — cities and counties with the highest concentrations of persons in poverty (as a proxy for long-term welfare recipients, since local data on the latter does not exist) and to States for balance-of-State areas. Of the amount distributed by formula, two-thirds would be allocated to the targeted cities and one-third would be allocated to the balance-of-State areas. The allocation formula could be:
 1. Based entirely on simply the numbers of persons in poverty, such that cities and states got funds in direct proportion to their poverty population; or
 2. Based 50 percent on the numbers of persons in poverty and 50 percent on the numbers of persons living in areas of concentrated poverty (census tracts of 30 percent or higher poverty). This would target funds towards the poorest urban and rural areas of the country, the communities likely to be most affected by welfare limits enacted under the welfare reform legislation.
- A 20 percent match is required for the basic grant. TANF funds can be used for matching purposes.
- One percent of the funds would be reserved for Indian reservations.
- X percent of the formula distributed funds would be withheld for performance payments for successful placements.

-- Ten percent of the funds for each of the three years would be reserved for a demonstration in 5-10 areas that utilizes a saturation approach to target resources in high poverty areas:

1. The Secretary of Labor, in collaboration with the Secretaries of HHS and HUD, would award demonstration grants through a competition.
2. Demonstration sites -- areas of 25,000 persons or less -- would receive \$5-\$10 million each year for three years.
3. This demonstration would be targeted towards the poorest urban and rural pockets of poverty in the U.S., such as Empowerment Zones and Enterprise Communities, public housing projects, and rural sites in Appalachia, the rural South, and areas along the Mexican border.
4. The demonstration would include a formal evaluation examining community-wide impacts of this saturation approach over a 3-year period.

Area Eligibility

- o The 100 cities and counties with the highest number of individuals in poverty would receive formula grants, provided that at least one locality in each State would receive a grant. States would also receive formula funds for "balance-of-State" programs in small cities, towns, and rural areas.
- o Governors would be responsible for administering Balance-of-State funds. They could choose to distribute funds to counties, rural Service Delivery Areas, or other entities.

Individual Eligibility

- o Individuals eligible to receive services are long-term welfare recipients who have been on welfare at least 18 months, and who have at least one of the following barriers to employment: poor basic skills, lack high school diploma, public housing resident, or resident in high poverty area. There would be a local option of adding another barrier.

Program Design/Use of Funds

- o State and local areas would be authorized to use funds to carry out activities designed to result in successful placement and retention of eligible individuals in employment that lasts 9 months or longer. These activities could be funded in conjunction with

other resources, such as funds under the basic TANF grant, Food Stamps, JTPA, and the Wagner-Peyser Act, as well as private sector resources.

- o Activities could include but not be limited to:
 1. On-the-job training through private sector employers;
 2. Contracts with private job placement companies or with State one-stop employment services for private sector employment lasting nine months or longer;
 3. Job placement vouchers to recipients to be redeemed by job placement companies or employers who retain recipients in private sector jobs for nine months;
 4. Job skills training directly related to employment;
 5. Public sector job creation on Indian reservations, labor surplus areas, and other areas approved by the Secretary of Labor as having insufficient numbers of jobs for low-skilled workers;
 6. Grants to non-profit organizations for job creation programs;
 7. Skill training and leadership development programs in public housing projects;
 8. Microenterprises and entrepreneurial ventures; and
 9. Job retention services, including transportation assistance, crisis payments, case management, emergency child care, and domestic violence prevention; such services could be provided through job retention vouchers.

Employment and training services provide under these grants would also be considered work activities under TANF for purposes of the TANF work participation requirements.

Performance Grants

- o Twenty-five percent of the total funds would be awarded based on the number of successful placements (in FY 1999, X million would be used for performance grants and in FY 2000, Y million would be used for performance grants).
- o "Successful placement" would be defined as employment during 3 consecutive quarters with earnings totalling at least \$7,725, which when combined with EITC, would be sufficient to lift a family of 3 out of poverty (this equates to annual earnings

of about \$10,300, or \$5.15 per hour -- the 1998 minimum wage -- for a 2,000 hour job). UI wage records would be used to verify placements.

- o An extra \$1,000 would be paid for a placement in a local area with an unemployment rate that is 150% of the national average.

Applications/Local Plans

- o In order to receive a formula grant, the chief elected official of each local area (and Governors on behalf of balance-of-State areas) must submit to and have approved by the Secretary a 3-year plan for the use of funds.
- o Plan Development and Review -- The chief elected official of the local area and the local employer council under JTPA (or successor legislation) would be responsible for plan development. The local plan must be reviewed and agreed to by the Governor. State plans (for balance of State areas) must be developed with the participation of the State Human Resource Investment Council (or equivalent).
- o Plan Content
 - The plan is to describe the activities and strategies to be undertaken to accomplish the successful placements of the target population.
 - The plan is to describe how other resources and programs will be used to assist in achieving placement objectives, including resources from TANF, Food Stamps, JTPA, Wagner-Peyser, WOTC, and the private sector.
 - In addition, the plan is to describe how stakeholders were brought together to plan WTW activities and how their participation will help achieve the placement objectives through use of in-kind resources, hiring commitments, etc. Stakeholders would include the private sector (representatives of business and labor), community-based organizations, private industry councils, the Employment Service, the TANF administering entity, and relevant providers of employment-related services and economic development activities.
- o Plan Approval -- The Secretary of Labor, in collaboration with the Secretary of HHS, would be authorized to approve plans that the Secretaries determined would meet the objectives of the Act.

Federal Responsibilities

- o The Secretary of Labor would be responsible for allocation of funds and oversight under the Act. In addition, the Secretary would be responsible for conducting an evaluation of the overall program and setting MIS requirements for participant data

and follow-up data on each participant for at least two years. The Secretaries of Labor, in collaboration with the Secretaries of HHS and HUD, would be responsible for conducting the grant competition, overseeing, and evaluating the 5-10 site demonstration.

- o The evaluation of the demonstration will examine community-wide impacts on the employment rate, the poverty rate, crime, the teen birth rate, the welfare rate, and child well-being indicators.
- o The Secretary of Labor would consult with the Secretary of HHS to ensure coordination with TANF.

Labor Protections

- o The labor protection provisions of JTPA or successor legislation would be applicable to activities carried out under the Act, including nondisplacement, nondiscrimination, wage and working condition standards, and grievance procedures.

Welfare to Work Program

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Section 481 State plan

(a) **Contents of state plan.** The state shall submit to the Secretary of HHS a plan which includes the following:

- (1) Identifies a public-private partnership with an employment focus to administer welfare to work program
- (2) Describe activities for placing welfare recipients into private sector employment
- (3) Provide assurances that all recipients receiving assistance under the program have the option of receiving a job placement voucher and will be informed about their options for using a job placement voucher.
- (4) Describe how welfare to work funds will be coordinated with other programs
- (5) Identify populations to be served by the program
- (6) Identify communities or regions within the state that will be served by the program and provide assurances that the state will target high poverty areas
- (7) Certification that the administering entity will comply with non-displacement rules
- (8) Certify that the administering agency will consult with local communities, counties, JTPA Service Delivery Areas, local employment agencies, etc. in administering the program.

(b) **Federal role.** The Secretary shall review state plans to determine whether it complies with this section. All plans that contain the information required in subsection (a) shall be approved.

Section 482 Grants for operation of welfare to work programs

(a) **Eligible states.** A state may apply for funds if:

- (1) It has a state plan for welfare to work that meets requirement of Section 481
- (2) Total state spending on work programs in the prior fiscal year exceeded state spending on JOBS programs in fiscal year in fiscal year 1996.

(b) **Contents of state application.** A state application must include:

- (1) Certification that the state needs additional funds to meet participation rates for TANF, provide employment for long-term TANF recipients, or food stamp beneficiaries.

- (2) (A) Certification that the state has met program performance goals in the prior year, or,
(B) For states that failed to meet program performance goals, a corrective action plan.

(3) Certification that welfare to work funds will supplement, not supplant, state funds or funds from other federal grants.

(4) The number of projected placements of recipients in private sector employment with the grant by category

(c) Payments to states

(1) 60% of the funds would be allocated to states with plans submitted under Section 481 based on the states percentage of the national caseload of TANF recipients and food stamp recipients covered by work requirements. States that did not submit plans meeting the requirements of Section 481 would not be eligible for funds, with the funds allocated to these states redistributed among the remaining states.

(2) States would receive \$2000 for each projected placement up to the state allocation.

(3) States which had failed to meet the program performance goals for two or more years would not receive any federal funds unless the state has a corrective action plan approved by the Secretary or provides the Secretary with a reason for the failure.

(d) Performance grants.

(1) In addition to the grants under subsection (c), the Secretary shall provide each state with an additional grant from the remaining 40% based on placements. The bonus payments will vary based on the unemployment rate in the area of the placement, the length of time the individual had been on assistance, barriers to employment, and the earnings of the individual placed. Bonus payments would be varied as follows:

(A) A basic \$1000 bonus payment for each placement of a long-term (18+ month) TANF recipient or individuals who have lost food stamp benefits because of the food stamp time limit/work requirement

(B) An additional \$500 bonus payment if the individual has one of a list of barriers to employment (lack of high school education, lack of basic skills, etc.)

(C) An additional \$1000 bonus payment if the individual placed is in an area with unemployment above 7%.

(D) An additional \$500 bonus payment if the earnings of the individual in the nine months following placement exceed 130% of poverty.

(E) An additional \$1000 bonus for individuals placed in new businesses created in areas of high unemployment / high poverty (to be defined) by leveraging public and private resources (i.e. tax abatement, etc.)

(2) If state claims for performance bonuses exceeds the total amount of funds available for performance bonuses, the Secretary shall make a pro rata reduction in the amount of each individual performance bonus.

(e) Appropriation.

(1) Provide a mandatory appropriation to (DOL or HHS) for this program of the following amounts:

1999 -- \$350 million

2000 -- \$1 billion

2001 -- \$1.1 billion

2002 -- \$1.25 billion

(Note: These amounts represent the work funding levels in Castle-Tanner, which were based on the escalating participation rates, plus CBO baseline for food stamp employment and training programs.)

(2) The funds would be available until expended.

Section 483 Use of funds

(a) In general. The funds shall be used to assist TANF recipients and food stamp recipients in obtaining and keeping private sector employment.

(b) Specific uses

(1) Job placement vouchers given directly to recipients that could be redeemed by job placement companies that successfully place the recipient in a private sector job that is held for at least nine months or by employers who employ the recipient for at least nine months.

(2) Contracts with placement companies or with public job placement programs (i.e. Riverside). The contract must provide that the majority of funds would be paid after the individual had been placed in unsubsidized private sector employment for nine months.

(3) Work supplementation in private sector jobs, with the subsidy period limited to six months.

(4) Microenterprises

(5) Supportive services (transportation, counseling, etc) during the first six months of employment for former TANF recipients who obtained private sector employment.

(c) Job Placement Vouchers

- (1) **Availability** All recipients would be eligible to receive a job placement voucher that could be redeemed by job placement agencies or employers who place the individual in private sector employment.
- (2) **Accreditation** The administering entity would accredit placement agencies and employers that were eligible to redeem job placement vouchers. The entity would establish reasonable standards (areas for standards?) for placement agencies and employers to be eligible, but could not establish standards that had the effect of limiting the choices available to recipients of job placement vouchers.
- (3) **Voucher rates.** States would set their own voucher rates. If the state provides for placement through contracts or other means in addition to vouchers, the voucher rates must be comparable to the payments for placements through these other activities.
- (4) **Redemption.** The state would set the terms for redemption of vouchers, but no more than 25%(?) of the voucher could be redeemed up front, and no more than 75% of the voucher may be redeemed until the recipient has been employed for nine (six?) months.

(d) Prohibited uses.

- (1) Funds couldn't be used to satisfy matching requirements under other programs
- (2) Funds couldn't be used to displace current workers
- (3) Funds couldn't be used to create public service jobs, except for areas (reservation?, county?) with unemployment exceeding (25%?, 50%?)

Section 485 Performance goals

The Secretary shall establish performance goals for states receiving assistance under this Part. The performance goals shall include:

- (1) Goals for the percentage of individuals receiving assistance to be placed in private sector employment. The Secretary shall calculate the goal for each state after taking into account the unemployment and poverty rates in the state, the number of TANF recipients in the state, the work participation rate for the state (after the pro rata reduction in the rates for the state) and the size of the TANF grant to the state relative to the state's caseload.
- (2) Goals for retention rates for individuals placed in private sector employment.
- (3) Goals for earnings of TANF or food stamp recipients placed in private sector employment.

Section 486 Interaction with TANF

(a) Individuals who are receiving assistance under this section who lost eligibility for TANF because of earnings from employment shall be counted in TANF participation rates.

(b) Assistance under this section shall not count toward TANF time limit

Section 487 Administration

(a) **Authorization of appropriations.** Authorize such sums as may be necessary for grants to the public/private partnership designated by the state for administrative costs. Each state's share of administrative funds shall be based on the state's share of total mandatory funds paid under Section 483(a).

(b) **Use of administrative funds.** Administrative funds could be used to develop and implement a job placement voucher program, administer contracts with

(c) **Limitation on administrative funds** Administrative expenditures shall not exceed 7% of total spending by the lead organization

Welfare to Work Opportunities

Work First Block Grant

- Provide \$3 billion over four years for welfare to work programs for recipients of TANF and food stamp recipients subject to work requirements. Funds become available in fy99, increasing to reflect increased TANF participation rates states must meet under the welfare block grant and would be allocated based on the proportion of TANF and food stamp recipients in the state.
- Funds would be administered by a public-private entity which could operate a variety of programs for to move welfare recipients into private sector employment, including job placement vouchers, direct contracts with job placement organizations, wage supplementation, temporary subsidized jobs, programs similar to Riverside program, microenterprises, etc.
- States applying for funds would state how many individuals it will attempt to place with the funds, and receive \$2000 for each intended placement.
- Secretary of HHS will establish a placement target for states based on economic conditions in that state and the amount of funds the state received. A state which fails to achieve its targeted placement rate with funds in any year must file a corrective action plan or to be approved by the Secretary to receive funds in the subsequent year unless the Secretary determines that there were extenuating circumstances (i.e. high unemployment, etc).
- States would reduce additional bonus payments based on successful job placement. Larger bonuses provided for placement of hard core welfare recipients and individuals with barriers to employment

Food Stamp Workfare Program

- Require states to operate a food stamp workfare program and offer a workfare slot to all able-bodied adults without children receiving food stamps.
- A State agency must develop an Individual Responsibility Plan for each participant that establishes work or job training requirements to remain eligible for benefits.
- Allow states to terminate food stamp benefits for any individual who refuses to participate in a food stamp workfare program or otherwise violates the individuals Individual Responsibility Plan.
- Provide \$100 million a year in increased funding to states for food stamp employment and training programs
- States may apply for a waiver of these provisions if the cost of operating a food stamp work program is more than twice the federal grant to the state for food stamp employment and training programs. Individuals would not lose benefits for failure to participate in a workfare program if the state has a waiver from these provisions.

Work Opportunity Tax Credit

- Expand and permanently extend the Work Opportunity Tax Credit to allow employers to claim a 50% credit on the first \$10,000 of wages and fringe benefits for long-term welfare recipients
- Allow employers to claim the Work Opportunity Tax Credit for hiring adults age 18-50 who are receiving food stamps or who lost food stamp benefits because they did not satisfy food stamp work requirements

Dependant Care Tax Credit

- Make the Dependent Care Tax Credit refundable for low income families with no tax liability.
- Phase out the Dependent Care Tax Credit for couples with adjusted gross incomes between \$100,000 and \$125,000 a year.

File:
Welfare -
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"One in a Hundred Mothers Works in Exchange for Welfare Check"

By JENNIFER DIXON

-Associated Press Writers

WASHINGTON (AP) - Only one of every hundred women on public assistance works for her family's welfare check, say studies illustrating the staggering task President Clinton faces fulfilling a promise to move welfare mothers off the rolls and into jobs.

Clinton has said that low-income Americans deserve help with education and training but after two years of assistance "you have to ask people to take a job, ultimately, either in the private sector or in public service."

A record 5 million families - almost all of them headed by a single parent - collect a check under Aid to Families with Dependent Children. At least 3 million mothers probably have been on welfare for two years or more.

A handful now work in exchange for their checks, as teachers or Head Start aides, hospital candy-strippers, welfare office clerks or in other low-skill positions.

Right now, the JOBS - or Job Opportunities and Basic Skills training program - requires states to put an increasing share of their AFDC recipients into education, training or work programs.

Studies by two Washington research groups, one conservative and one liberal, say most JOBS participants are in education or training.

The studies say about 1 percent of the 4.49 million families on AFDC in 1991 worked in exchange for their check.

Robert Rector, a welfare policy analyst for the conservative Heritage Foundation, pegs the number of women in jobs or on-the-job training at 20,000 to 30,000, based on a recent analysis of federal data.

The liberal Center for Law and Social Policy estimated the number at 17,000 to 35,000 in an average month in 1991. Its 1992 study was based on preliminary 1991 federal records and a survey of the states.

Increasing the numbers is "an enormous, daunting task," said Paul Offner, an aide to Sen. Daniel Patrick Moynihan, D-N.Y., chairman of the Senate Finance Committee.

David Ellwood, assistant secretary for planning and evaluation at the Department of Health and Human Services, wrote in December that at least 3 million women probably have been on welfare for two years or more.

"If half of these are required to work, the cost and mechanics could be staggering," he said, citing Offner's estimate of the cost of creating a public service job and day care at \$3,500 per case.

In a recent interview, Ellwood said the administration's overhaul of the welfare system would put limits on the time a family could collect benefits without a member working. HHS Secretary Donna E. Shalala said last week that others of young children would not necessarily be exempt from these work requirements.

Federal records released Friday show 498,195 AFDC recipients were in the JOBS program in 1991, including 262,977 who participated for at least 20 hours a week.

Advocacy groups for the poor say the states have emphasized education and training under JOBS.

"Given that a large percentage of the AFDC caseload has some serious skill or educational deficits, it's clear that providing people with education and training programs that improve their employability will be a good long-term investment," said Susan Steinmetz, senior legislative associate for the Center on Budget and Policy Priorities.

Steinmetz also notes that state welfare caseloads have risen with the recession, while jobs vanished.

Economic problems also have left states with only enough matching money to use about two-thirds of the \$1 billion available from the federal government for JOBS.

"It's not possible to fund an education, training and work program for everyone on welfare with the current resources. Part of what these numbers indicate is that," said Mark Greenberg, senior staff attorney with the Center for Law and Social Policy, a research and policy organization that focuses on issues affecting low-income families.

Rector said, "Despite all the rhetoric designed to appease public sentiment, virtually nothing has been done" to put welfare recipients to work.

Clinton estimated the costs of welfare reform during his campaign at \$4 billion a year.

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Welfare vs. work

Two women, both single parents, live in the District of Columbia in low-income housing. One made \$1,374 in November. After paying rent, day care and so forth, she had \$437 left over for food, utilities, clothing, emergencies and incidental expenditures. The other made \$2,999 in November. After paying rent, she had \$2,928 left over for food, utility bills, clothing and incidental expenses.

Guess which one has a job.

If you guessed the one that had more money, then you guessed wrong. The situation speaks volumes about the problem of welfare in this country and why it's so difficult to end that problem: Why work when it literally pays not to work? The Washington Post clearly laid out the dilemma in a front-page story Sunday — although that may not have been its precise intent.

The newspaper based its story on the lives of two women, Elizabeth Jones and LaVerne Peeler, both of whom happen to live in a federal housing project known as East Capitol Dwellings. Ms. Jones, 27 and the mother of three, rides six buses and walks two miles each day getting her three children to day care and herself to work. A receptionist in northeast Washington, she found that after getting her job, the share of her subsidized rent quintupled. She lost more than \$200 a month in food stamps and added day-care costs of nearly \$400. Because government assistance is based on household income, Ms. Jones' initiative and industry was rewarded with reduced benefits.

The point was not lost on Ms. Peeler. "Her public housing rent skyrocketed," she told The Post. "Her public housing rent skyrocketed. She's losing Medicaid [benefits] for her kids. It's crazy."

So Ms. Peeler hasn't worked since summer 1994. Thanks to the generosity of welfare programs, she is able to rent a larger apartment than Ms. Jones. She has substantially more take-home "pay" than Ms.

Jones. So she has enough left over, The Post reports, for two phone lines, caller ID, a VCR and cable television. She also has more leisure time than Ms. Jones, the value of which is harder to quantify. Perhaps not surprisingly, only 89 of East Capitol Dwellings' 477 units reported any earned income in November. It would, as Ms. Peeler puts it, be "crazy" to work when welfare is more lucrative.

A Cato Institute study last year by Stephen Moore, Michael Tanner and David Hartman touched on exactly this trade-off between work and welfare. "Despite the stereotypes," they wrote, "there is no evidence that people receiving welfare are 'lazy.' Indeed, surveys of recipients consistently show that they express a desire to work. The choice of welfare over work is often a rational decision based on the economic incentives presented."

Put another way: "The pretax value of welfare benefits substantially exceeds the amount a recipient could earn in an entry-level job in virtually every state. The numbers suggest that recipients of aid are likely to choose welfare over work, thus increasing their long-term dependence."

Welfare recipients aren't stupid. If you pay them not to work, many, even most, won't. No doubt some would argue that The Post story shows the need for increased aid to the so-called working poor. But there doesn't seem to be much money lying around the federal treasury, even if lawmakers decided such assistance were a good idea. Besides, the solution to subsidized idleness is not subsidized work; it's to eliminate or perhaps phase out the original subsidy.

"Any welfare reform proposal," write Cato's analysts, "must recognize that individuals are unlikely to move from welfare to work as long as welfare pays as well as or better than working. That suggests that the most promising welfare reforms are those that substantially cut back on the level of benefits."

The Boeing-McDonnell Douglas deal

For some time now, analysts have been speculating about the long-term prospects of a world market consisting of three major civilian airline manufacturers. Consolidation, in the view of many, was inevitable. It appears to be taking place at last, with Boeing Co.'s proposed \$13.3 billion acquisition of McDonnell Douglas Corp. The combined 1995 sales of the two, at \$33.8 billion, would also be large enough to establish the new entity as the leading U.S. aerospace company. Lockheed Martin (which doesn't make civilian planes) had 1995 sales of \$23 billion.

As usual, an acquisition on this scale has raised antitrust concerns. McDonnell Douglas and Boeing are the only U.S. producers of civilian aircraft; that in itself, in ordinary circumstances, would seem to be

enough to set off alarm bells. Except that McDonnell Douglas' share of that market has declined sharply, down to around 10 percent and is on life support. The real competitors are Boeing (55 percent) and Airbus, the European consortium (35 percent).

The most important question has little to do with the civilian market, however. It's how well the new configuration will serve U.S. national security needs. Even though defense budgets have been declining, we cannot allow ourselves to be caught short. The Pentagon will review this deal to see if it comports with U.S. defense needs. Chances are the Defense Department will find that the new entity will be commercially stronger than the sum of its parts, and that together with Lockheed Martin, we have reason to expect our needs can be met.

The Washington Times

WEDNESDAY, DECEMBER 18, 1996

Guerrillas Capture Japan's Ambassador in Peru, Others (Buenos Aires) By Sebastian Rotella and Sonni Efron (c) 1996, Los Angeles Times

BUENOS AIRES, Argentina Leftist guerrillas stormed the residence of the Japanese ambassador in Peru during a reception Tuesday night, taking hundreds of hostages including the ambassador, Peru's foreign minister and several Latin American ambassadors and Peruvian legislative leaders.

As many as 30 guerrillas armed with automatic weapons and explosives remained barricaded inside the residence in an upscale coastal neighborhood of Lima late Tuesday night, surrounded by police and soldiers. In negotiations with Red Cross intermediaries and journalists, the members of the Tupac Amaru Revolutionary Movement, or MRTA, threatened to kill the hostages if Peruvian authorities did not release scores of imprisoned guerrillas.

But there were no reports of deaths or injuries, and the guerrillas released a number of women hostages, including the sister and the mother of President Alberto Fujimori. The number of hostages was estimated between 500 and 800, but there was no official confirmation of those figures.

The hostages included the president of Peru's Congress and the ambassadors of Brazil, Cuba, Bolivia and Venezuela, according to reports from the scene. There were unconfirmed reports that three mid-ranking U.S. diplomats were attending the reception, but a U.S. embassy spokesman said the U.S. ambassador was not in attendance.

The Japanese ambassador, Morihisa Aoki, was permitted by his captors to talk on the telephone with Japan's NHK News but was forbidden by his captors to speak Japanese. Speaking in Spanish, Aoki said 800 guests were being held hostage inside his residence, but said the guerrillas had ordered him not to disclose the number of gunmen.

"There is no panic," Aoki said. "It is under control. The guerrillas are calm. There are no deaths or injuries."

However, other Japanese eyewitnesses, in telephone interviews, said three people did appear to have been injured in the initial attack, though it was not clear if they were hostages or guerrillas.

A Japanese eyewitness outside the residence said that 10 hostages had been released, mostly elderly people and women. "They appear to be Japanese," the man said. Other reports put the number of hostages released at 30. A Japanese Foreign Ministry spokesman said that President Alberto Fujimori's mother was among those released. The guerrillas set off a loud explosion before charging into the reception shortly after 8 p.m., witnesses said.

The Japanese Foreign Ministry said its secret emergency telephone hotline was cut by the guerrillas, implying that the attack had been carefully planned in advance.

Security is generally tight at Japanese facilities in Lima because they have been the target of at least four terrorist attacks since 1987.

However, because of Tuesday's party, security at the ambassador's residence had been relaxed for the evening, Japan Television reported.

Hiroyuki Kimoto, the third-ranking diplomat in the Japanese embassy, was near the front gate of the residence when the bombs went off, apparently greeting guests arriving for a party to celebrate the emperor's birthday, which is Dec. 23. While the guerrillas stormed the residence, Kimoto hid in the guard shack and was able to call the Foreign Ministry from his cellular phone.

Kimoto said that at about 8:30 p.m. Lima time, a number of explosions were heard, followed by sustained gunfire.

"While we were talking to him, we could hear gunfire in the background," a Foreign Ministry spokesman said. "He said he couldn't stick his head out."

Japanese Chief Cabinet Secretary Seiroku Kajiyama said Japan had appealed to the government of Peru to protect the ambassador.

The well-organized attack stunned Peru. Fujimori has built an image of stability around his conquest of the MRTA and the larger Shining Path terrorist movement, both of which have suffered major defeats after years of fighting that claimed 30,000 lives. Peru has experienced an economic slump of late, stirrings of voter discontent with Fujimori and tension between the president and the powerful military.

"The circumstances are especially bad for Fujimori," said Enrique Zileri, a political analyst and owner of the respected *Caretas* magazine, in a telephone interview. "His strong suit was that he had supposedly controlled the subversive movements. We have had an economic chill, confrontations with the military. And now this."

Moreover, the target of the terrorist strike was especially sensitive. Peru and Japan have developed a close relationship aided by Fujimori's Japanese heritage, and Japan recently announced a \$600 million loan package for infrastructure development in Peru. Japan is Peru's second biggest trading partner after the United States; its active investment is key to Peru's efforts to revitalize an economy wracked

by poverty and recovering from years of war and political turmoil.

The MRTA is considered a classic Latin American guerrilla movement that finances its operations through kidnappings and robberies. Experts say it is a smaller and less brutal group than the cultlike Maoists of Shining Path. Although the MRTA has a history of spectacular operations and a flair for Robin-Hood style propaganda, it had kept a low profile since a violent urban clash a year ago in which security forces captured terrorists who were allegedly planning to take over the Peruvian Congress.

"The intelligence services have been resting on their laurels," Zileri said. "Obviously the subversive movements still exist."

Among the suspects captured during the incident a year ago were an American, Lori Berenson, whom a military court convicted on terrorism charges. Her case has become a cause celebre and her family has asserted that she is innocent, demanding that she be retried in a civilian court.

There are hundreds of other accused MRTA guerrillas in Peruvian prisons. A self-proclaimed leader of the guerrillas holed up inside the embassy, identified as Comrade Huerta, told a Lima radio station by phone that the objective of the raid was to win their release from "the dungeons of various prisons."