

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
Washington, D.C. 20503

WR - BILL  
LANGUAGE

May 27, 1994

LEGISLATIVE REFERRAL MEMORANDUM

LRM #D-799  
DRAFT #127

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FROM: JANET R. FORSGREN (for) *C. Mustain* (for)  
Assistant Director for Legislative Reference

OMB CONTACT: Chris MUSTAIN (395-3923)  
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SUBJECT: HHS-Draft Bill Comprehensive Welfare Reform  
and-Family-Support Amendments of 1994

DEADLINE: 3:00 PM June 3, 1994

COMMENTS: Attached are titles IV, V, and VII of the welfare reform initiative. Additional components of the bill will be circulated in the near future.

OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or receipts for purposes of the the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:

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## TITLE IV-CHILD CARE

## SEC. 401. CHILD CARE FOR JOBS AND WORK PROGRAM PARTICIPANTS.

(a) Guarantee While in WORK or JOBS Program.-- (1) Section 402(g)(1)(A)(i)(I) of the Act is amended by striking out the semicolon and inserting in lieu thereof "(including employment under part G, or other required activities under such part);".

(2) Section 402(g)(1)(A)(i) of the Act is amended--

(A) by striking out "(including participation in a program that meets the requirements of subsection (a)(19) and part (F)", and

(B) by striking out "approves the activity" and inserting in lieu thereof "approves the activity as part of the individual's employability plan under part F (regardless of whether resources are available to provide other services or pay for other activities to carry out such plan)".

(b) Transitional Child Care After Leaving Work Program.--

(1) Section 402(g)(1)(A)(ii) of the Act is amended immediately following "aid to families with dependent

children" by inserting "or wages under the program under part G".

(2)(A) Clause (iii) of section 402(g)(1)(A) of the Act is amended by inserting before the period at the end thereof "or wages under part G".

(B) Clause (iv) of such section is amended immediately after "aid to families with dependent children" by inserting "or wages under part G".

(c) Health and Safety Standards; Continuity of Care.-- (1) For Recipients.--Section 402(g)(1)(A) of the Act is amended by adding at the end thereof the following new subparagraphs:

"(viii) Child care guaranteed under this section, whether provided by a method permitted under subparagraph (B) or by means of an agreement under subsection (j) with the lead agency designated under the Child Care and Development Block Grant Act of 1990 (hereafter referred to as the 'CCDBG Act'), must meet all health and safety standards established by the lead agency (for purposes of the CCDBG Act), and, in addition to any other requirements imposed pursuant to that Act, the State agency must assure (or any such agreement must provide) that (i) all children whose child care is paid for, in whole or in part, under this subsection will be required to have received all immunizations, at the appropriate times, as currently recommended by the Advisory Committee on Immunization Practices (an advisory

committee established by the Secretary, acting through the director of the Centers for Disease Control and Prevention) as specified on the pediatric vaccines list referred to in section 1928(e), and (ii) child care providers used will take steps to assure that toxic substances, weapons, and any other items at the location where the child care is provided that could be harmful to young children, will be secured and unobtainable by the children.

"(ix) The State agency must furnish a certificate (or other documentation) by the director or other appropriate official of the lead agency that child care provided under this subsection will conform in all ways to the provisions for parental choice, unlimited parental access, handling of parental complaints, and consumer education, as well as to all the other standards, criteria, and requirements applicable to child care provided under the CCDBG Act.

"(x) The State agency may, at its option, provide or authorize the provision of child care (and if it exercises this option, shall so advise the lead agency designated under the CCDBG Act, if it has an agreement with such agency under subsection (j)) to a child whose family has been referred pursuant to paragraph (1)(A) for such periods of time as are necessary to assure continuity of care or the benefits of the child development program, even though, for such periods, the

individual whose participation in the program under part F or part G or whose employment is enabled by the child care may have temporary interruptions in employment or training."

(2) For At-Risk Families.--Section 402(i) of the Act is amended by redesignating paragraphs (5) and (6) as paragraphs (8) and (9), respectively, and by inserting after paragraph (4) the following new paragraphs:

"(5) Child care provided under this subsection, whether provided by a method permitted under paragraph (2) or by means of an agreement under subsection (j) with the lead agency designated under CCDBG Act, must meet all health and safety standards established by the lead agency (for purposes of the CCDBG Act), and, in addition to any other requirements imposed pursuant to that Act, the State agency must assure (or any such agreement must provide) that (i) all children whose child care is paid for, in whole or in part, under this subsection being will be required to have received all immunizations, at the appropriate times, as currently recommended by the Advisory Committee on Immunization Practices (an advisory committee established by the Secretary, acting through the director of the Centers for Disease Control and Prevention) as specified on the pediatric vaccines list referred to in section 1928(e), and (ii) child care providers used will take steps to assure that toxic substances, weapons, and any other items at the location where the child care is

provided that could be harmful to young children, will be secured and unobtainable by the children.

"(6) The State agency must furnish a certificate (or other documentation) by the director or other appropriate official of the lead agency that child care provided under this subsection will conform in all ways to the provisions for parental choice, unlimited parental access, handling of parental complaints, and consumer education, as well as to all other standards, criteria, and requirements applicable to child care provided under the CCDBG Act.

"(7) The State agency may, at its option, provide or authorize the provision of child care (and if it exercises this option, shall so advise the lead agency designated under the CCDBG Act, if it has an agreement with such agency under subsection (j)) to a child whose family has been referred pursuant to paragraph (1)(A) for such periods of time as are necessary to assure continuity of care or the benefits of the child development program, even though, for such periods, the individual whose employment is enabled by the child care may have temporary interruptions in employment."

#### SEC. 402. RELATED AMENDMENTS.

(a) Child Care for Participants in the JOBS or WORK Program, and Transitional Child Care.-- Section 402(g) of the Act is amended--

(1) by striking out, in paragraph (1)(A)(vii), "a sliding scale formula" and all that follows and inserting in lieu thereof "the sliding fee scales established by the lead agency designated under the Child Care and Development Block Grant Act of 1990 as required by section 658E(c)(5) of that Act.";

(2) by amending paragraph (1)(C)(i) by striking out clause (II) and inserting in lieu thereof "an amount not less than the amount in the effect under this clause for January 1994."; by

(3) by amending paragraph (3)(B) by adding "and" after clause (i), striking out "applicable standards" and all that follows in clause (ii) and inserting in lieu thereof "all requirements, standards, and criteria applicable to child care funded under the CCDBG Act.", and by repealing clause (iii); and

(4) by repealing paragraphs (4) and (5).

(b) At-Risk Child Care.-- Section 402(i) of the Act is amended--

(1) in paragraph (3)(A), by striking out "a sliding scale formula" and all that follows and inserting in lieu thereof "the sliding fee scales referred to in subsection (g)(1)(A)(vii).";

(2) in paragraph (7)(B) (as redesignated by section 401(c)(2)), by striking out "applicable standards of State and local law;" and inserting in lieu thereof "all requirements, standards, and other criteria applicable to child care funded under the CCDBG Act; and;"

(3) by repealing subparagraphs (C) and (D) of such paragraph (7); and

(4) by amending paragraph (8) (as redesignated) to read as follows:

"(8)(A) In order to facilitate more accurate analysis of the supply and quality of child care resources, the demand for such resources that cannot currently be satisfied, and the effectiveness and relationship of Federal programs providing support for child care and child development activities, the Secretary shall specify by regulation a core set of consistently defined data elements for child care and child development programs which must be used by each State with respect to all reports relating to child care or child development activities supported in whole or in part under this Act or under the CCDBG Act.

"(B) The State agency shall cooperate with the lead agency designated under the CCDBG Act in preparing the report required under section 658K(a) of that Act so that

report includes, and, where relevant, identifies the numbers of children served and amounts of funding provided under subsection (g) and under this subsection. If the lead agency fails to prepare and submit to the Secretary the report for any year, the State agency administering the plan approved under this part shall promptly prepare a report detailing, at a minimum, the numbers and ages of children served, income levels of families to whom child care was provided, the types of settings in which care was provided, the methods of payments used, the fees charged, the efforts made to improve the quality of child care, including steps to improve licensing and monitoring, training, and resources for referrals, and such other information as the Secretary may request to determine that the guarantee of child care was appropriately met and the Federal funds were properly expended."

SEC. 403. LIMITATION OF AT-RISK CHILD CARE TO FAMILIES INELIGIBLE  
FOR RECIPIENT OR TRANSITIONAL CHILD CARE

Section 402(i)(1)(A) of the Act is amended to read as follows:

"(A) is not eligible for child care under subsection (g);".

SEC. 404. OPTION TO CONSOLIDATE STATE RESPONSIBILITY FOR CHILD CARE QUALITY AND STANDARDS.

(a) State Option.-- Section 402 of the Act is amended by adding at the end thereof the following new subsection:

"(j)(1) In order to provide the child care which must be guaranteed pursuant to subsection (g) or which may be furnished pursuant to subsection (i), the State agency may enter into an agreement with the lead agency designated under section 658D of the CCDBG Act under which--

"(A) the State agency will refer to the lead agency each family with respect to whom child care must be guaranteed pursuant to subsection (g) or is to be furnished pursuant to subsection (i) (and identify which subsection is applicable to the family and for what period of time);

"(B) subject to paragraph (2), the State agency will pay (either in advance or as reimbursement) the lead agency for the cost of providing child care for any child with respect to whom care must be guaranteed under subsection (g) or is to be furnished under subsection (i), and the lead agency agrees that care for all such children will only be paid for from such reimbursement; and

"(C) that (i) all child care provided by the lead agency under the agreement, whether directly or by contractual or other arrangements, will be subject to the

same requirements, standards, and other criteria as are applicable to child care funded under the CCDBG Act, (ii) parents and children to whom such care is provided will be offered all the same protections and procedural safeguards as are applicable to child care furnished under the CCDBG Act, and (iii) no distinction between or identification of children will be made that reflects the source of funding for the child care provided.

"(2) Limits of Reimbursement.--The State agency shall not pay the lead agency for care provided to a child any amount (A) less than the minimum permitted under subsection (g)(1)(C)(i)(II) and specified by the State for fiscal year 1994 in its plan approved under this part nor (B) in excess of the amount described in subsection (g)(1)(C) or (i)(3)(B), whichever may be applicable to the child involved, and, with respect to children to whom subsection (i)(3)(B) applies, the State agency shall be obligated to pay the lead agency for child care furnished in a fiscal year only to the extent of appropriations available for such purpose for such fiscal year.

"(3) Single State Agency.-- Nothing in this subsection shall be construed as precluding the designation of the agency established or designated under section 402(a)(3) as the lead agency for purposes of the CCDBG Act. No agreement shall be necessary in the case where the same agency is designated under

both the CCDBG Act and this Act, but the agency shall, as lead agency, comply with all the provisions of this subsection."

SEC. 405. FUNDING FOR QUALITY IMPROVEMENT AND LICENSING

ACTIVITIES BENEFITTING CHILDREN REFERRED BY AFDC  
AGENCY.

(a) Licensing and Monitoring Costs.--Section 402(g)(3) of the Act is amended by adding at the end thereof the following new subparagraph:

"(C) In determining the amount expended by a State for child care required to be guaranteed under this subsection, the Secretary shall allow the State to include an amount, determined in accordance with a formula prescribed by the Secretary, to reimburse the State for expenditures in connection with licensing, registration, monitoring, and similar activities with respect to child care providers in the State. The formula adopted by the Secretary shall reflect either the number of children for whom child care is reimbursed under section 403(a), the number of child care providers in the State furnishing such child care, or both, and any other factors which the Secretary determines it would be equitable to consider."

(b) Supply and Quality Improvement Activities.--Section 402(i) of the Act is amended by redesignating paragraph (9) (as previously redesignated) as paragraph (10) and inserting after and below paragraph (8) the following:

"(9) Of the amount available to a State for any fiscal year under section 403(n), 10 percent of such amount may be paid by the Secretary with respect to expenditures for those activities to improve the quality of child care in the State described in section 458G of the Child Care and Development Block Grant Act (referred to in this subsection as the 'CCDBG' Act) and to increase the availability in low-income communities of child care appropriate for infants and very young children and to increase its availability in a variety of settings. Either the State agency administering the plan approved under this part or the lead agency designated under the CCDBG Act may conduct such activities (in which case the State agency shall pay to the lead agency the amount provided by the Secretary for this purpose pursuant to the preceding sentence."

SEC. 406. FUNDING OF CHILD CARE FOR FAMILIES AT RISK OF WELFARE  
DEPENDENCY.

(a) Federal Funding.-- Section 403(n)(2)(B) is amended--  
(1) by striking out the period at the end and inserting a comma, and adding after and below clause (v) the following:  
"reduced by 2 percent (for carrying out sections\_\_\_\_ through \_\_\_\_ of the Comprehensive Welfare Reform and Family Support Amendments of 1994.", and

(b) Reallotment of At-Risk Child Care Funds.-- Section 403(n)(3)(C) of the Act (permitting a one-year carryover by a State of unclaimed Federal funds for at-risk child care) is amended to read as follows:

"(C) If the amount specified in subparagraph (B) for any fiscal year exceeds (or if the Secretary estimates that it will exceed) the total amount paid (or estimated to be payable) under paragraph (1) for such fiscal year, then the Secretary shall provide additional payments to States whose expenditures pursuant to section 402(i) for such year exceed their limitation on Federal payment under paragraph (2). The Secretary shall by regulation provide for the equitable reallotment of any amounts available in the case where all States' claims for a fiscal year under this subparagraph exceed the amount available for reallotment."

SEC. 407. SUPPLEMENT TO INCOME DISREGARD.

Section 402(g)(1)(B) of the Act is amended by adding at the end thereof the following new sentence: "If the State agency guarantees child care by applying the income disregard provision in subsection (a)(8)(A)(iii) in determining the amount of aid to be paid for a month, the State agency shall also, unless it offers the caretaker relative the option of receiving care under another arrangement pursuant to this subparagraph, reimburse the caretaker relative for expenditures for child care for such month

in an amount equal to the excess of such expenditures (or, if less, the maximum amount that may be paid for the type of child care involved, as determined under subparagraph (C)) over the maximum amount that may be disregarded under such subsection."

SEC. 408. NOTICE OF CHILD CARE OPTION.

Section 402(g)(1)(A)(i) of the Act is amended by striking out the period at the end and inserting in lieu thereof a semicolon and adding after and below clause (II) the following: "and if the State agency applies the income disregard provision in subsection (a)(8)(A)(iii) without reimbursement under subparagraph (B) for any additional cost, it shall advise each such family that they also have the option to have the State agency provide child care under another arrangement pursuant to subparagraph (B)."

TITLE V - PREVENTION OF DEPENDENCY

SEC. 501. SUPERVISED LIVING ARRANGEMENTS FOR MINORS.

(1) Section 402(a)(43) of the Act is amended by striking out "at the option of the State,".

(2) Such section is further amended in subparagraph (A)(i) by striking out ", or reside in a foster home" and all that follows down to the semicolon.

(3) Such section is further amended--

(A) by amending so much of subparagraph (B) as precedes clause (i) to read "(B) in the case where --",

(B) by striking out the semicolon at the end of each numbered clause in such subparagraph and inserting in lieu thereof a comma, and

(C) by adding after and below clause (v) of such subparagraph the following:

"subparagraph (A) shall not be applicable, but the State agency shall assist the individual in locating an appropriate adult-supervised supportive living arrangement taking into consideration the needs and concerns of the minor, (or may determine that the individual's current living arrangement is appropriate) and thereafter shall require that the individual (and child, if any) reside in such living arrangement as a condition of the continued receipt of aid under the plan or, if the State agency is unable, after making diligent efforts, to locate any such appropriate living arrangement, it shall provide for comprehensive case management, monitoring, and other social services consistent with the best interests of the individual (and child) while living independently;"

**SEC. 502. STATE OPTION TO LIMIT BENEFIT INCREASES FOR ADDITIONAL FAMILY MEMBERS.**

(a) State Option.--Section 402(a) of the Act is amended --

(A) by striking out "and" after paragraph (44);

(B) by striking out the period after paragraph (45) and inserting in lieu thereof ";and"; and

(C) by adding at the end thereof the following new paragraph:

"(46) at the option of the State, provide that --

"(A) subject to subparagraphs (B) (C), and (D), the amount of aid to families with dependent children paid to a family under the plan will not be increased by reason of the birth of a child to an individual included in such family for purposes of making the determination under paragraph (7) and applying paragraph (8) (but any such child will be considered to be a recipient of aid for all other purposes, including title XIX) if --

"(i) in the case where the individual is the relative receiving aid, the child was conceived in a month for which the individual received aid under the plan, or

"(ii) in the case where the individual is a dependent child, the individual is the parent of another child who is a member of the same family and whose needs are included for purposes of making such determination;

"(B) services will be provided under paragraph (15) to all appropriate family members;

"(C) there will be disregarded, in making the determination under paragraph (7) and before applying the provisions of paragraph (8), an amount of income equal to any increase in aid that would have been paid but for subparagraph (A) that is derived from child support collected with respect to the child referred to in paragraph (A), earned income of a member of the family referred to in such subparagraph, or from any other source specified in the plan that the Secretary may approve as consistent with the objectives of this paragraph; and

"(D) the provisions of subparagraph (A) will not be applied in case of rape or in any other cases that the State agency finds would violate standards of fairness and good conscience."

(b) Matching for Related Administrative Costs.-- Section 403(a)(3) of the Act is amended by striking out the semicolon and inserting in lieu thereof "or counseling or referral services furnished pursuant to section 402(a)(15);".

#### SEC. 503. CASE MANAGEMENT FOR PARENTS UNDER AGE 20.

Section 482(b) of the Act is amended by adding at the end thereof the following new paragraph:

"(3) The State agency shall--

"(A) assign a case manager to each custodial parent receiving aid under part A who is under age 20;

"(B) provide that case managers will have the training necessary (taking into consideration the recommendations of appropriate professional organizations) to enable them to carry out successfully their responsibilities and will be assigned a caseload the size of which permits successful case management; and

"(C) provide that the case manager will be responsible for--

"(i) assisting such parent in obtaining appropriate services, including parenting education, family planning services, education and vocational training, and child care and transportation services,

"(ii) making the determinations required to implement the provision of paragraph (43),

"(iii) monitoring such parent's compliance with all program requirements, and, where appropriate, providing incentives and applying sanctions, and

"(iv) providing general guidance, encouragement and support to such parent to achieve self-sufficiency."

SEC. 504. STATE OPTION TO PROVIDE ADDITIONAL INCENTIVES AND PENALTIES TO ENCOURAGE TEEN PARENTS TO COMPLETE HIGH SCHOOL AND PARTICIPATE IN PARENTING ACTIVITIES.

(a) State plan.--Section 402(a)(19)(E) of the Act (as amended by section 101 of this Act) is amended by adding "and" after clause (ii) and adding after and below clause (ii) the following new clause:

"(iii) at the option of the State, custodial parents who are under age 20 (and pregnant women under age 20) who are receiving aid under this part will be required to participate in a program of monetary incentives and penalties, consistent with subsection (j);".

(b) Elements of program.--Section 402 of the Act is amended by adding at the end thereof the following new subsection:

"(j)(1) If a State chooses to conduct a program of monetary incentives and penalties to encourage custodial parents (and pregnant women) who are under age 20 to complete their high school (or equivalent) education, and participate in parenting activities, the State shall amend its State plan--

"(A) to specify the one or more political subdivisions in which the State will conduct the program (or other clearly defined geographic area or areas), and

"(B) to described its program in detail.

"(2) A program under this subsection--

"(A) shall require participation by all custodial parents (including pregnant women) who are under age 20 and have not received a high school diploma (or equivalent) other than a parent who meets a criterion (other than incapacity or disability) that qualifies the parent for participation in pre-JOBS activities, as described in subsection (a)(19)(D);

"(B) may, at the option of the State, include all such parents who are under age 21;

"(C) may, at the option of the State, require, in addition to full-time participation in secondary school or equivalent educational activities, participation in a course or program leading to a skills certificate found appropriate by the State agency or parenting education activities (or any combination of such activities and secondary education);

"(D) shall require that the case manager assigned to the custodial parent pursuant to subsection (a)(44)(C) will review the needs of such parent and will assure that, either in the initial development or revision of the parent's

employability plan, there will be included a description of the services that will be provided to the parent and the way in which the case manager and service providers will coordinate with the educational or skills training activities in which the custodial parent is participating;

"(E) shall provide monetary incentives for more than minimally acceptable performance of required educational activities; and

"(F) shall provide penalties (which may be those required by subsection (a)(19)(G) or, with the approval of the Secretary, other monetary penalties that the State finds will better achieve the objectives of the program.

"(3) When a monetary incentive is payable because of the more than minimally acceptable performance of required educational activities by a custodial parent, the incentive shall be paid directly to such parent, regardless of whether the State agency makes payment of aid under the State plan directly to such parent.

"(4) The State agency shall from time to time provide such information as the Secretary may request, and otherwise cooperate with the Secretary, in order to permit evaluation of the effectiveness on a broad basis of the State's program conducted under this subsection."

SEC. 505. ADOLESCENT PREGNANCY PREVENTION GRANTS.

(a) Adolescent Pregnancy Prevention Program.--

Title XX (42 U.S.C. 1397-1397f) is amended by adding at the end the following:

"SEC. 2008. ADOLESCENT PREGNANCY PREVENTION GRANTS.

"(a) Purpose.--The purpose of this section is to encourage and provide financial assistance for the development of intensive and sustained school-linked and school-based pregnancy prevention programs for adolescents in areas of high poverty or high unmarried adolescent birth rates that build upon other Federal, State, and local pregnancy prevention and youth development programs.

"(b) General Authority.-- Notwithstanding section 2005(a)(6), the Secretary of Health and Human Services, the Secretary of Education, and the Chief Executive Officer of the Corporation for National and Community Service (hereinafter referred to as the 'responsible Federal officials'), in consultation with other relevant Federal agencies, shall jointly make grants to eligible entities, to carry out programs in accordance with this section.

"(c) Federal Administration.--

"(1) Notwithstanding the Department of Education Organization Act (20 U.S.C. 3401 et seq.) and the General Education Provisions Act (20 U.S.C. 1221 et seq.), the

responsible Federal officials shall jointly provide for the administration of this section, and shall jointly issue whatever regulations, procedures, and guidelines, the responsible Federal officials consider necessary and appropriate to administer and enforce the provisions of this section.

"(2) The responsible Federal officials may enter into agreements with any other Federal entity with expertise in youth development activities to administer the program under this section and may provide such entity with appropriate reimbursement.

"(d) Funding.--

"(1) In General.--To achieve the purposes of this section, the responsible Federal officials shall make grants to eligible entities under subsection (b) and conduct activities under subsections (m) and (n) so that in the aggregate the expenditures for such grants and activities do not exceed \$20,000,000 for fiscal year 1995, \$40,000,000 for fiscal year 1996, \$60,000,000 for fiscal year 1997, \$80,000,000 for fiscal year 1998, and \$100,000,000 for fiscal year 1999 and each subsequent fiscal year.

"(2) Payments to Grantees.-- Upon approval by the responsible Federal officials, each grant applicant shall be entitled to payment of at least \$50,000 and not more than

\$400,000 for each fiscal year based on an assessment by the responsible Federal officials of the scope and quality of the proposed program and the number of adolescents to be served by the program. Payments to a grantee for any fiscal year shall be available for expenditure by such grantee in such fiscal year or the succeeding fiscal year.

"(3) Reservation for Evaluation, Training, Technical Assistance, and National Clearinghouse.--The responsible Federal officials shall reserve, with respect to each fiscal year, up to 10 percent of the aggregate amount described in paragraph (1) for expenditure by the responsible Federal officials for evaluation, training, and technical assistance related to the programs under this section, and for the establishment and operation of a National Clearinghouse on Adolescent Pregnancy Prevention Programs under subsection (n).

"(4) Excess Amount.--If in any fiscal year the aggregate amount specified in paragraph (1) for such fiscal year exceeds the amount required to carry out approved grant applications and other functions under paragraph (3), then the amount specified in section 2003(c)(5) shall be increased by the excess.

"(e) Definitions.--As used in this section:

"(1) Adolescents.--The term 'adolescents' means youth who are ages 10 through 19.

"(2) Eligible entity.--The term 'eligible entity' means a partnership that includes--

"(A) a local education agency, acting on behalf of one or more schools; together with

"(B) one or more community-based organizations, institutions of higher education, or public or private agencies or organizations.

"(3) Eligible area.--The term 'eligible area' means a school attendance area in which--

"(A) at least 75 percent of the children are from low-income families as that term is used in part A of title I of the Elementary and Secondary Education Act of 1965;

"(B) the number of children receiving Aid to Families with Dependent Children under part A of title IV is substantial as determined by the responsible Federal officials; or

"(C) the unmarried adolescent birth rate is high, as determined by the responsible Federal officials.

"(4) School.--The term 'school' means a public elementary, middle, or secondary school.

"(5) Responsible Federal officials.-- The term 'responsible Federal officials' means the Secretary of Education, the Secretary of Health and Human Services, and the Chief Executive Officer of the Corporation for National and Community Service.

"(f) Uses of Funds.--Grants under this section --

"(1) shall be used to --

"(A) develop, operate, expand, and improve a sequential, age-appropriate program of instruction and counseling services for adolescents designed to promote personal responsibility and a healthy lifestyle, and to prevent adolescent pregnancy, through such activities as counseling and instruction in the full range of consequences of premature sexual behavior and adolescent pregnancy, training in decision-making, and activities to promote involvement of parents and families in adolescent development and personal responsibility; and

"(B) provide opportunities for sustained contact with one or more adults, through such activities as mentoring, group coaching, or after-school activities; and

"(2) may be used to conduct other related activities that promote the purposes of this section.

"(g) Application.-- Each applicant for a grant under subsection (b) must submit an application that --

"(1) includes a plan, based on local needs, for accomplishing the purposes of this section that --

"(A) sets forth specific, measurable goals intended to be accomplished under the program, and describes the methods to be used in measuring progress toward accomplishment of such goals;

"(B) describes the components of the program, including --

"(i) the role in the program of any national service participants supported by the National and Community Service Act of 1990 (42 U.S.C. 12501 et seq.) or by any other national service law as defined in such Act, and

"(ii) the activities, in accordance with subsection (f), that will be made available under the program,

and the manner in which such components will be implemented, including the extent to which activities will take place after school, on weekends, or during the summer;

"(C) describes the manner in which one or more professional staff will administer the program, and,

where appropriate or feasible, the manner in which national service participants will be involved in the development or delivery of services and in the coordination of during or after-school activities;

"(2) demonstrates the manner in which the program will be based on research concerning effective means of reducing adolescent pregnancy, including reducing risk-taking behaviors correlated with adolescent pregnancy;

"(3) demonstrates that the program will serve male and female adolescents and, where feasible, out-of-school adolescents, and describes the steps the applicant will take to serve such adolescents;

"(4) demonstrates the manner in which the applicant will provide, to the extent feasible, a continuity of services for adolescents until age 19;

"(5) demonstrates the extent to which school personnel, parents, community organizations, and the adolescents to be served have participated in the development of the application and will participate in the planning and implementation of the program;

"(6) describes the applicant's partnership, including the relationship of the partners, the role of each partner in the development and implementation of the program, and

the manner in which the partners will coordinate their resources;

"(7) describes the nature and scope of commitment to the program by other community institutions, such as religious organizations, community groups, institutions of higher education, business, and labor;

"(8) describes the methods to be used in coordinating the provision of services under the program with the provision of services or benefits under other Federal or federally assisted programs, State and local programs, and private programs serving the same population;

"(9) demonstrates that the area to be served is an eligible area;

"(10) contains assurances that at least one activity will be located in a school in the area to be served and describes the activities that will be school-based;

"(11) contains assurances that the amounts provided under this section will not be used to supplant Federal, State, or local funds for services and activities that promote the purposes of this section;

"(12) contains assurances that the applicant will provide a non-Federal share, in cash or in kind, of at least 20 percent of the cost of carrying out the approved program;

"(13) describes the applicant's plan for continuation of the program following completion of the grant period and termination of Federal support under this section;

"(14) contains assurances that the applicant will furnish such reports, containing such information, and participate in such evaluations, as the responsible Federal officials may require; and

"(15) includes such other information and assurances as the responsible Federal officials may reasonably require.

"(h) Priorities.--In making awards under this section, the responsible Federal officials shall give priority to applicants that --

"(1) provide for non-Federal resources significantly in excess of those required in subsection (g)(12) or for an increasing ratio of non-Federal resources over the term of the grant; and

"(2) participate in other Federal and non-Federal programs that relate to the purposes of this section.

"(i) Treatment as Non-Federal Share.-- For purposes of the National and Community Service Act of 1990 (42 U.S.C. 12501 et seq.), the funds provided to a grantee under this section shall not be considered Federal funds.

"(j) Prohibition on Use of Funds.--No assistance made available under this section shall be used to provide religious

instruction, to conduct worship services, or to proselytize in any manner.

"(k) Geographic Diversity.--The responsible Federal officials shall, to the extent feasible, ensure that applications are approved from both urban and rural areas and reflect nationwide geographic diversity.

"(l) Duration of Grant.--An application approved under this section shall be for a term of 5 years; except that approval may be terminated before the end of such period if the responsible Federal officials determine that the grantee conducting the program has failed substantially to carry out the program as described in the approved application.

"(m) Evaluation, Training, and Technical Assistance.--

"(1) Evaluation.--The responsible Federal officials shall evaluate the effectiveness of programs conducted under this section, directly or by grant or contract, and may require each grantee conducting such a program to provide such information as the responsible Federal officials determine is necessary for such evaluations.

"(2) Training and Technical Assistance.--The responsible Federal officials may provide training and technical assistance with respect to the development, implementation, or operation of programs under this section.

"(3) Coordination with National Clearinghouse.--The responsible Federal officials shall coordinate the activities conducted under this subsection with the activities conducted by the National Clearinghouse on Adolescent Pregnancy Prevention Programs under subsection (n).

"(n) National Clearinghouse on Adolescent Pregnancy.

"(1) Establishment.--The responsible Federal officials shall establish, through grant or contract, a national center for the collection and provision of programmatic information and technical assistance that relates to adolescent pregnancy prevention programs, to be known as the 'National Clearinghouse on Adolescent Pregnancy Prevention Programs'.

"(2) Functions.--The national center established under paragraph (1) shall serve as a national information and data clearinghouse, and as a training, technical assistance, and material development source for adolescent pregnancy prevention programs. Such center shall --

"(A) develop and maintain a system for disseminating information on all types of adolescent pregnancy prevention programs and on the state of adolescent pregnancy prevention program development,

including information concerning the most effective model programs;

"(B) develop and sponsor a variety of training institutes and curricula for adolescent pregnancy prevention program staff;

"(C) identify model programs representing the various types of adolescent pregnancy prevention programs;

"(D) develop technical assistance materials and activities to assist other entities in establishing and improving adolescent pregnancy prevention programs;

"(E) develop networks of adolescent pregnancy prevention programs for the purpose of sharing and disseminating information; and

"(F) conduct such other activities as the responsible Federal officials find will assist in developing and carrying out programs or activities to reduce adolescent pregnancy."

SEC. 506. DEMONSTRATION PROJECTS TO PROVIDE COMPREHENSIVE SERVICES TO PREVENT ADOLESCENT PREGNANCY IN HIGH-RISK COMMUNITIES.

Title XX (42 U.S.C. 1397-1397f) is amended by adding at the end the following:

"SEC. 2009. DEMONSTRATION PROJECTS TO PROVIDE COMPREHENSIVE SERVICES TO PREVENT ADOLESCENT PREGNANCY IN HIGH-RISK COMMUNITIES.

"(a)(1) Purpose.--In order to stimulate the development of innovative approaches for the effective delivery of comprehensive services, with particular emphasis on pregnancy prevention, to certain youth and their families in high-risk communities and the promotion of community involvement in improving the environment in which such youth live, the Secretary of Health and Human Services shall conduct a program of demonstration projects in accordance with this section.

"(2) Approval of Projects.--The Secretary of Health and Human Services, in consultation with the Secretary of Education, the Secretary of Housing and Urban Development, the Attorney General, and the Secretary of Labor, shall approve at least 5 and not more than 7 projects, in accordance with subsection (c). Upon approval by the Secretary, each project applicant shall be entitled to payment of up to \$3,600,000 for each of fiscal years 1995 through 2000 for the purpose of conducting approved demonstration projects.

"(b) Funding.--

"(1) In General.--There shall be made available to the Secretary \$20,000,000 for each of fiscal years 1995 through 1999 for carrying out the projects under this section.

Payments to a grantee for any fiscal year must be expended by the grantee in such fiscal year or the succeeding fiscal year.

"(2) Evaluation, Training, and Technical Assistance.-- The Secretary shall reserve, with respect to each fiscal year, ten percent of the amount described in paragraph (1) for expenditure by the Secretary for training and technical assistance related to the demonstration projects under this section and for evaluation of such projects. The amount so reserved shall remain available for obligation through fiscal year 1999.

"(3) Excess Amounts.--If in any fiscal year the amount specified in paragraph (1) for such fiscal year exceeds the amount required to carry out approved projects and evaluation, training, and technical assistance under this section, then the amount specified in section 2003(c)(5) shall be increased by the excess.

"(c) Application; Eligibility Criteria.--A local public or private nonprofit organization, including an unit of government, or any combination of such entities, shall be eligible to submit a project application. In order that an application be approved under subsection (a), the application must --

"(1) demonstrate that the geographic area to be served by the project satisfies the following criteria:

"(A) it includes a population of 20,000 to 35,000 residents,

"(B) it has an identifiable boundary and is recognizable as a community by its residents, and

"(C) within the community, there is a poverty rate --

"(i) in the area as a whole, of not less than 20 percent,

"(ii) in at least 90 percent of such area, of not less than 25 percent, and

"(iii) in at least 50 percent of such area, of not less than 35 percent;

"(2) include a plan for accomplishing the purposes of this section that --

"(A) describes the comprehensive, integrated services, in accordance with subsection (e), that will be made available under the project;

"(B)(i) sets forth the goals intended to be accomplished under the project, and

"(ii) describes the methods to be used in measuring progress toward accomplishment of such goals and the outcomes to be measured, including unmarried adolescent birth rates, rates of youth alcohol and drug use, rates of youth violence, high school graduation

rates, and such other outcomes as the Secretary finds appropriate;

"(C) describes the process by which the affected community (including parents, the youth to be served, schools, local government, religious organizations, community groups, business, and labor) is a full partner in the process of developing and implementing the project and the extent to which parents, the youth to be served, and local institutions and organizations have contributed to the planning process;

"(D) identifies the private and public partnerships to be used;

"(E) describes the methods to be used in coordinating the provision of services under the project and the provision of services or benefits under other Federal or federally assisted programs, State and local programs, and private programs serving the same population; and

"(F) describes the manner in which other Federal funds and non-Federal funds will be used to further the purposes of the program;

"(3) demonstrate strong State and local government commitment to the project and involvement in the planning and implementation of the project;

"(4) demonstrate the ability of the applicant to carry out the project;

"(5) describe the methods to be used for maintaining accurate records regarding the activities carried out with funds under this section;

"(6) contain assurances that the amounts provided under this section will not be used to supplant Federal, State, and local funds for services and activities that promote the purposes of this section;

"(7) contain assurances that the applicant will provide a non-Federal share, in cash or in kind, of 10 percent of the cost of carrying out the approved project and describe the capacity of the applicant to provide the non-Federal share;

"(8) contain assurances that the applicant will furnish such reports, containing such information, and participate in such evaluations, as the Secretary may require; and

"(9) include such other information as the Secretary may require.

"(d) Priority.-- In making awards under this section, the Secretary shall give priority to applicants that provide for non-Federal resources significantly in excess of those required in subsection (c) (7).

"(e) Use of Grants.--Under each demonstration project conducted under this section, the grantee shall provide, directly or indirectly, a wide range of services in each of the following areas --

"(1) health services designed to promote physical and mental well-being and personal responsibility (with particular emphasis on pregnancy prevention), such as school health services, health education, family planning services, substance abuse prevention services and referral for treatment, life skills training, and decision-making skills training;

"(2) educational and employability development services designed to promote educational advancement leading to a high school diploma or its equivalent and opportunities for high skill, high wage job attainment and productive employment, to establish a lifelong commitment to learning and achievement, and to increase self-confidence, such as academic tutoring, literacy training, drop-out prevention programs, career and college counseling, mentoring programs, job skills training, apprenticeships, and part-time paid work opportunities;

"(3) social support services designed to provide youth with a stable environment, opportunities for a sustained relationship with one or more adults, and opportunities for

participation in safe and productive activities, such as cultural, recreational and sports activities, leadership development, peer counseling and crisis intervention, mentoring programs, parenting skills training, and family counseling; and

"(4) community activities designed to improve community stability, and to encourage youth to participate in community service and establish a stake in the community, such as community policing, community service programs, community activities in partnership with less distressed neighborhoods, local media campaigns, and establishment of community advisory councils with youth representation.

"(f) Evaluation, Training, and Technical Assistance.--

"(1) Evaluation.--The Secretary shall evaluate the effectiveness of each demonstration project conducted under this section and may require each grantee conducting such a project to provide such information as the Secretary determines is necessary for such evaluations.

"(2) Training and Technical Assistance.--The Secretary shall provide training and technical assistance with respect to the development, implementation, or operation of projects under this section.

"(3) Coordination with National Clearinghouse.--The Secretary shall coordinate the activities conducted under

this subsection with activities conducted by the National Clearinghouse on Adolescent Pregnancy Prevention Programs under section 2008(m).

"(g) Funding Period.--Each demonstration project supported under this section shall be conducted for a 5-year period; except that the Secretary may terminate a project before the end of such period if the Secretary determines that the grantee conducting the project has failed to carry out the project as described in the approved application.

"(h) Definitions and Special Rules.--As used in this section:

"(1) Youth.--The term "youth" means an individual who is not less than 10 years of age and not more than 21 years of age.

"(2) Use of Census Data.--Population and poverty rate shall be determined by the most recent decennial census data available."

#### TITLE VI - CHILD SUPPORT ENFORCEMENT

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#### TITLE VII - IMPROVING GOVERNMENT ASSISTANCE

##### PART A - AFDC AMENDMENTS

SEC. 701. PERMANENT REQUIREMENT FOR UNEMPLOYED PARENT PROGRAM.

(a) In General.--Section 401(h) of the Family Support Act of 1988 (terminating the requirement that States provide benefits to two-parent families based on the unemployment of the principal earner) is repealed.

(b) Applicability to Puerto Rico, American Samoa, Guam, and the Virgin Islands.--Section 401(g)(2) of the Family Support Act of 1988 is amended, effective on the date of enactment of such Act, to read as follows:

"(2) The amendments made by this section (other than those made by subsection (c)) shall not become effective with respect to Puerto Rico, American Samoa, Guam, or the Virgin Islands unless the jurisdiction involved notifies the Secretary of Health and Human Services that it chooses to have such amendments apply."

SEC. 702. STATE OPTIONS REGARDING UNEMPLOYED PARENT PROGRAM.

(a) Duration of Unemployment and Recency-of-Work Tests.--

(1) Section 407(b)(1)(A) of the Act (in the matter preceding clause (i)) is amended to read as follows:

"(A) subject to paragraph (2), shall provide for the payment of aid to families with dependent children with respect to a dependent child within the meaning of subsection (a) --"

(2) Such section is further amended--

(A) by striking out "whichever" in clause (i) and inserting in lieu and thereof "when, if the State choose to so require (and specifies in its State plan), whichever", and

(B) by striking out "(iii)(I)" and inserting in lieu thereof "(iii) when, if the State chooses to so require (and specifies in its State plan) (I)".

(b) State Option to Define "Unemployment".--At its option, a State may apply, for purposes of section 407 of the Act, a definition of unemployment that includes individuals who, solely by reasons of the standards prescribed by the Secretary of Health and Human Services under subsection (a) of such section and in effect on the date of enactment of this Act, would not have been eligible for aid to families with dependent children, and shall include such definition in its State plan approved under part A of title IV of the Act.

(c) Effective Date.-- The amendments made by this section shall become effective October 1, 1996.

#### SEC 703. DEFINITION OF ESSENTIAL PERSON.

(1) General Requirement.--Section 402 of the Act is amended by adding immediately after and below subsection (c) the following new subsection:

"(d) In order that the State may include the needs of an individual in determining the needs of the dependent child and

relative with whom the child is living, such individual must be living in the same home as such child and relative and--

"(1) furnishing personal services required because of the relative's physical or mental inability to provide care necessary for herself or himself or for the dependent child (which, for purposes of this subsection only, includes a child receiving supplemental security income benefits under title XVI),

"(2) furnishing child care services, or care for an incapacitated member of the family, that is necessary to permit the caretaker relative --

"(A) to engage in part-time employment outside the home, or

"(B) to attend a course of education designed to lead to a high school diploma (or its equivalent) or a course of training on a part-time basis, or to participate in the program under part F on a part-time basis."

SEC. 704. EXPANDED STATE OPTION FOR RETROSPECTIVE BUDGETING.

Section 402(a)(13) of the Act is amended --

(1) by striking out in the matter that precedes subparagraph (A) "but only with respect to any one or more categories of families required to report monthly to the State agency pursuant to paragraph (14),"; and

(2) by striking out in each of subparagraphs (A) and (B) "(but only where the Secretary determines it to be appropriate, in the case of families who are required to report monthly to the State agency pursuant to paragraph (14),".

SEC. 705. DISREGARDS OF INCOME.

(a) Student Earnings.-- (1) In General.-- Section 402(a)(8)(A)(i) of the Act is amended by striking out "dependent child" and inserting in lieu thereof "individual under age 19".

(2) Conforming Amendments.-- Section 402(a) of the Act is amended--

(A)(i) by striking out "a dependent child" in paragraph (8)(A)(vii) and inserting in lieu thereof "an individual under age 19", and

(ii) by striking out "such child" in such paragraph and inserting in lieu thereof "such individual", and

(B) by striking out in paragraph (18) "of a dependent child" and inserting in lieu thereof "of an individual under age 19".

(b) Standard Earned Income Disregard Amount.--Section 402(a)(8)(A)(ii) of the Act is amended by striking out "\$90" and inserting lieu thereof "\$120, or if greater, \$120 adjusted by the CPI (as prescribed in section 406(i))".

(c) State Option to Disregard Earned Income.-- (1) In General.-- Section 402(a)(8)(A)(iv) of the Act is amended to read as follows:

"(iv) may, at its option, disregard amounts of earned income in addition to those required or permitted to be disregarded under this paragraph, and shall specify in its State plan any such additional amounts and the circumstances (including whether they will be disregarded at application) under which they will be disregarded;"

(2) Conforming Amendments.--

(A) Clause (ii) of section 402(a)(8)(B) of the Act is repealed.

(B) Section 402(g)(1)(A)(ii) of the Act is amended by striking out "or by reason of subsection (a)(8)(ii)(II)".

(d) Disregard of Training Stipends.--Section 402(a)(8)(A)(v) of the Act is amended to read as follows:

"(v) shall disregard from the income of any individual applying for or receiving aid to families with dependent children any amount received as a stipend or allowance under the Job Training Partnership Act or under any other training or similar program;"

(e) Mandatory Child Support Pass-Through.--(1) Section 402(a)(8)(A)(vi) of the Act is amended--

(A) by striking out "\$50" (in two places) and inserting in lieu thereof "\$50, or, if greater, \$50 adjusted by the CPI (as prescribed in section 406(i))";, and

(B) by striking out the semicolon at the end and inserting in lieu thereof "or, in lieu of the amount specified in two places in this clause, such greater amount as the State may choose (and provide for in its State plan);".

(2) CPI Adjustment.--Section 406 of the Act is amended by adding at the end thereof the following new subsection:

"(i) For purposes of section 402(a)(8), an amount is 'adjusted by the CPI' for any month in a calendar year by multiplying the amount involved by the ratio of--

"(1) the Consumer Price Index (as prepared by the Department of Labor) for the third quarter of the preceding calendar year, to

"(2) such Consumer Price Index for the third quarter of calendar year 1996,  
and rounding the product, if not a multiple of \$10, to the nearer multiple of \$10."

(f) Lump-Sum Income.--(1) In General.--Section 402(a)(8)(A) of the Act is amended--

(1) by striking out "and" after clause (viii), and

(2) by adding after and below clause (viii) the following new clause:

"(ix) shall disregard from the income of any family member any amounts of income received in the form of nonrecurring lump-sum payments;"

(2) Repeal.--Section 402(a)(17) of the Act is repealed.

(g) Educational Assistance.-- Section 402(a)(8)(A) of the Act is further amended by adding after and below clause (ix) the following new clause:

"(x) shall disregard all educational assistance provided to a family member;"

(h) In-Kind Income.--Such section is further amended by adding after and below clause (x) the following new clause:

"(xi) shall disregard all in-kind income provided to a family member;"

(i) Benefits Under the National and Community Service Act.-- Such section is further amended by adding after and below clause (xi) the following new clause:

"(xii) shall disregard any living allowance, stipend, or educational award paid under section 140 of the National and Community Service Act of 1990 to a family member participating in a national service program carried out with

assistance from the Corporation for National and Community Service;".

SEC. 706. STEPPARENT INCOME.

Section 402(a)(31) of the Act is amended by striking out the semicolon at the end and inserting in lieu thereof ", or, at the option of the State, so much of such income as exceeds any greater amount or amounts as the State agency finds appropriate to strengthen family life and provide incentives to increase earnings;".

SEC. 707. INCREASE IN RESOURCE LIMIT.

Section 402(a)(7)(B) of the Act is amended (in the matter preceding clause (i)) by striking out "\$1000 or such lower amount as the State may determine "and inserting in lieu thereof "\$2000 or, in the case of a family with a member who is 60 years of age or older, \$3000".

SEC. 708. EXCLUSIONS FROM RESOURCES.

(a) Life Insurance.-- Section 402(a)(7)(B)(ii) of the Act is amended by striking out the semicolon at the end and inserting in lieu thereof ", and the cash value of life insurance policies;".

(b) Real Property which Must be Disposed of.--Section 402(a)(7)(B)(iii) of the Act is amended to read as follows: "real property which the family is making a good faith effort to dispose of at a reasonable price;".

(c) Exclusion of Payments of the EITC.-- Section 402(a)(7)(B) of the Act is amended--

- (1) by striking out "or" after clause (iii), and
- (2) by amending clause (iv) (pertaining to payments by reason of the Earned Income Tax Credit) by striking out "the following month" and inserting in lieu thereof "the following eleven-month period",

(d) Lump-Sum Payments for Medical Expenses or Replacement of Lost Resources.-- Section 402(a)(7)(B) of the Act is amended--

- (1) by striking out "and" after clause (iv), and
- (2) by adding after clause (iv) the following new clause: "(v) for the month of receipt and the following eleven-month period, amounts that have been paid as reimbursement (or payment in advance) for medical expenses or for the cost of repairing or replacing resources of the family;".

(e) Individual Development Accounts.-- Section 402(a)(7)(B) of the Act is amended by adding after clause (v) the following new clause: "(vi) amounts, not to exceed \$10,000 in total deposited in one or more Individual Development Accounts established in accordance with (I) section 529 of the Internal Revenue Code of 1986 by any member of a family receiving aid to families with dependent children, or (II) under a demonstration project conducted under the Individual Development Account

Demonstration Act of 1994, but only if such amounts were deposited by such individual in a month for which such aid was paid, or food stamps provided, with respect to such individual; or".

(f) Resources for Self-Employment.-- Section 402(a)(7)(B) of the Act is amended by adding after clause (vi) the following new clause: "or (vii) liquid and nonliquid resources that are or will be used for the self-employment of a family member, to the extent and under the circumstances allowed by the State agency in accordance with regulations issued jointly by the Secretary and the Secretary of Agriculture (with applicability also to the Food Stamp Program);".

#### SEC. 709. VALUATION OF AUTOMOBILE.

Section 402(a)(7)(B) of the Act is amended --

- (1) by striking out in clause (i) "so much of the family member's ownership interest in one automobile as does not exceed such amount as the Secretary may prescribe"; and
- (2) by striking out the semicolon at the end of such section and inserting in lieu thereof "; and shall, in applying the provisions of this subparagraph, determine the value of motor vehicles, and the extent to which such value shall be included, in accordance with rules prescribed by the Secretary, in order assist in achieving the objectives this title;".

## SEC. 710. TRANSFER OF RESOURCES.--

Section 402(a)(7) of the Act is amended--

- (1) by adding "and" after subparagraph (C), and
- (2) by adding after and below subparagraph (C) the following new subparagraph:

"(D) shall determine ineligible for aid any family member who knowingly transfers resources for the purpose of qualifying or attempting to qualify for such aid for such period, not in excess of one year from the date of discovery of the transfer, determined in accordance with regulations of the Secretary;"

## SEC. 711. LIMITATION ON UNDERPAYMENTS.

Section 402(a)(22)(C) of the Act is amended by striking out "an underpayment" and inserting in lieu thereof "an underpayment, the corrective payment shall be made regardless of whether the family is, at the time payment is made, receiving current payment of aid under the State plan but such payment shall not exceed the amount necessary to correct for the underpayment of aid during the twelve-month period immediately preceding the month in which the State agency first learned of the underpayment, and".

SEC. 712. COLLECTION OF AFDC OVERPAYMENTS FROM FEDERAL TAX  
REFUNDS.

(a) Authority to Intercept Tax Refund.-- Part A of title IV of the Act is amended by adding at the end thereof the following new section:

"COLLECTION OF OVERPAYMENTS FROM FEDERAL TAX REFUNDS

"Sec. 419.(a). Upon receiving notice from a State agency administering a plan approved under this part that a named individual has been overpaid under the State plan approved under this part, the Secretary of the Treasury shall determine whether any amounts as refunds of Federal taxes paid are payable to such individual, regardless of whether such individual filed a tax return as a married or unmarried individual. If the Secretary of the Treasury finds that any such amount is payable, he shall withhold from such refunds an amount equal to the overpayment sought to be collected by the State and pay such amount to the State agency.

"(b) The Secretary of the Treasury shall issue regulations, approved by the Secretary of Health and Human Services, that provide--

"(1) that a State may only submit under subsection (a) requests for collection of overpayments with respect to individuals (A) who are no longer receiving aid under the State plan approved under this part, (B) with respect to

whom the State has already taken appropriate action under State law against the income or resources of the individuals or families involved as required under section 402(a)(22)(B), and (C) to whom the State agency has given notice of its intent to request withholding by the Secretary of the Treasury from the their income tax refunds;

"(2) that the Secretary of the Treasury will give a timely and appropriate notice to any other person filing a joint return with the individual whose refund is subject to withholding under subsection (a); and

"(3) the procedures that the State and the Secretary of the Treasury will follow in carrying out this section which, to the maximum extent feasible and consistent with the specific provisions of this section, will be the same as those issued pursuant to section 464(b) applicable to collection of past-due child support."

(b) Conforming Amendment.-- Section 552a(a)(8)(B)(iv)(III) of title 5 of the United States Code is amended by striking out "section 464 or 1137 of the Social Security Act" and inserting in lieu thereof "section 419, 464, or 1137 of the Social Security Act."

#### SEC. 713. VERIFICATION OF STATUS OF CITIZENS AND ALIENS.

(a) In General.--Section 1137(d) of the Act is amended by adding at the end thereof the following:

"(6) A State shall be deemed to meet the requirements of paragraph (1) with respect to the eligibility of each member of a family applying for aid under the State plan approved under part A of title IV, if the State requires, as a condition for such eligibility, a declaration in writing by an adult member of the family, under penalty of perjury, that each family member is a citizen of the United States or an alien eligible for aid under such State plan (and, with respect to a child born into a family receiving such aid, such declaration must be made no later than the time of the next redetermination of such family's eligibility following the birth of such child).".

(b) Effective Date.--The amendment made by subsection (a) shall become effective upon enactment.

SEC. 714. REPEAL OF REQUIREMENT TO MAKE CERTAIN SUPPLEMENTAL PAYMENTS IN STATES PAYING LESS THAN THEIR NEEDS STANDARDS.

Section 402(a)(28) of the Act is repealed.

SEC. 715. CALCULATION OF 185 PERCENT OF NEED STANDARD.

Section 402(a)(18) of the Act is amended by striking out "without application of paragraph (8)(A)(viii)," and inserting in lieu thereof "applying only the disregard provisions of paragraph (8) that appear in clauses (v) (income from a program under the Job Training Partnership Act), (viii) (payments related to the Earned Income Tax Credit), (ix) (certain lump-sum payments to replace lost resources), (x) (educational assistance), (xi) (in-kind income), and (xiii) (certain payments under the National and Community Service Act of 1990),".

SEC. 716. TERRITORIES.

(a) Section 1108(a) of the Act is amended by amending paragraphs (1), (2), and (3) to read as follows:

"(1) for payment to Puerto Rico shall not exceed--

"(A) \$82,000,000 with respect to fiscal years 1994, 1995, and 1996, and

"(B) \$ \_\_\_\_\_ or, if greater, such amount adjusted by the CPI (as prescribed in subsection (f)) for fiscal year 1997 and each fiscal year thereafter;

"(2) for payment to the Virgin Islands shall not exceed--

"(A) \$2,800,000 with respect to fiscal years 1994, 1995, and 1996, and

"(B) \$\_\_\_\_\_ or, if greater, such amount adjusted by the CPI (as prescribed in subsection (f)) for fiscal year 1997 and each fiscal year thereafter; and

"(3) for payment to Guam shall not exceed--

"(A) \$3,800,000 with respect to fiscal year 1994, 1995, and 1996, and

"(B) \$\_\_\_\_\_ or, if greater, such amount adjusted by the CPI (as prescribed in subsection (f)), for fiscal year 1997 and each fiscal year thereafter.".

(b) CPI Adjustment.--Section 1108 of the Act is amended by adding at the end thereof the following new subsection:

"(f) For purposes of subsection (a), an amount is 'adjusted by the CPI' for months in calendar year by multiplying that amount by the ratio of the Consumer Price Index as prepared by the Department of Labor for--

"(1) the third quarter of the preceding calendar year, to

"(2) the third quarter of calendar year 1996.".

## PART B -- FOOD STAMP ACT AMENDMENTS

## SEC. 721. INCONSEQUENTIAL INCOME.

Section 5(d)(2) of the Food Stamp Act of 1977 (7 U.S.C. 2014(d)(2)) is amended to read as follows--

"(2) any inconsequential payments, as defined by the Secretary, received during the certification period, but not to exceed a total of such payments of \$30 per household member in any quarter, whether the household's income is calculated on a prospective or retrospective basis,".

## SEC. 722. EDUCATIONAL ASSISTANCE

Section 5 of the Food Stamp Act of 1977 (7 U.S.C. 2014) is amended by--

(1) striking clause (3) of subsection (d) and inserting in lieu thereof the following--

"(3) all educational assistance,";

(2) in the proviso of clause (5) of subsection (d), striking "and no portion of any educational loan" and all that follows through "provided for living expenses,"; and

(3) striking clause (3) of subsection (k).

## SEC. 723. EARNINGS OF STUDENTS.

Effective on and after September 1, 1994, section 5(d)(7) of the Food Stamp Act of 1977 (7 U.S.C. 2014(d)(7)) is amended by--

(1) striking "a child who is a member of the household, who is"; and

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(2) striking ", and who is 21" and inserting in lieu thereof "who is 18".

SEC. 724. TRAINING STIPENDS AND ALLOWANCES;

INCOME FROM ON-THE-JOB TRAINING PROGRAMS

Section 5 of the Food Stamp Act of 1977 (7 U.S.C. 2014) is amended by--

(1) striking "and (16)" in subsection (d) and inserting in lieu thereof "(16)";

(2) inserting before the period at the end of subsection (d) ", and (17) all training stipends and allowances received by any member of a household"; and

(3) striking in subsection (1) the language beginning with "under section 204(b)(1)(C)" and all that follows through "19 years of age." and inserting in lieu thereof "shall be considered earned income for purposes of the food stamp program."

SEC. 725. EARNED INCOME TAX CREDITS

Effective on and after September 1, 1994, the second sentence of section 5(g)(3) of the Food Stamp Act of 1977 (7 U.S.C. 2014(g)(3)) is amended by--

(1) inserting "Federal or State lump-sum" immediately preceding "earned income tax credits"; and

(2) striking the language beginning with "if such member was participating" and all that follows through "the 12-month period".

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**SEC. 726. RESOURCES NECESSARY FOR SELF EMPLOYMENT**

Section 5(g)(3) of the Food Stamp Act of 1977 (7 U.S.C. 2014(g)(3)) is amended by adding the following new third and fourth sentences--

"The Secretary shall also exclude from financial resources loans obtained for the purposes of starting or operating a business. The Secretary may exclude from financial resources other resources necessary for the self employment of any member of a household as established in regulations developed jointly by the Secretary and the Secretary of the Department of Health and Human Services which, to the extent feasible and consistent with the purposes of this Act and the Social Security Act (42 U.S.C. 601 et seq.), are comparable."

**SEC. 727. NONRECURRING LUMP-SUM REIMBURSEMENTS**

Section 5(g)(3) of the Food Stamp Act of 1977 (7 U.S.C. 2014(g)(3)) as amended by this Act is further amended by adding the following new fifth sentence--

"The Secretary shall also exclude from financial resources, for a period of one year from their receipt, nonrecurring lump-sum payments that are reimbursements for past, current, or future costs."

**SEC. 728. INDIVIDUAL DEVELOPMENT ACCOUNTS**

Section 5(g)(3) of the Food Stamp Act of 1977

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(7 U.S.C. 2014(g)(3)) as amended by this Act is further amended by adding the following new sixth and seventh sentences--

"The Secretary shall also exclude from financial resources amounts, not to exceed \$10,000, deposited in Individual Development Accounts established in accordance with (A) the Internal Revenue Code of 1986 (26 U.S.C. 1 et seq.) by any household member receiving assistance under this Act or monthly assistance to families with dependent children under part A of title IV of the Social Security Act (42 U.S.C. 601 et seq.) or (B) demonstration projects conducted under the Individual Development Account Demonstration Act of 1994, but only if such amounts were deposited by such household member in a month for which assistance under this Act, or aid to families with dependent children, was provided to such member. The Secretary shall also exclude from financial resources, for the month of its receipt and the following month, a nonrecurring lump-sum payment received by any household member if the household member represents that the payment will be deposited in an Individual Development Account established as described in the preceding sentence."

SEC. 729. CONFORMING AMENDMENT

Section 5(d)(8) of the Food Stamp Act of 1977

(7 U.S.C. 2014(d)(8)) is amended in the proviso by inserting "paragraph (3) of subsection (g) of this section or" immediately preceding "other laws".

#### SEC. 730. APPLICATION FORMS

Section 11(e)(2) of the Food Stamp Act of 1977 (7 U.S.C. 2020(e)(2)) is amended by--

(1) striking in the first sentence "a simplified, uniform national" and inserting in lieu thereof "an";

(2) striking in the first sentence the language beginning with "designed by the Secretary" and all that follows through "brief and readable";

(3) striking the sentence which begins "Each food stamp application form shall contain," and the next two sentences and inserting in lieu thereof the following--

"The State agency shall inform each household in writing and in understandable terms that it has the right to file an application without immediately completing sections other than those covering the applicant's name, address, and signature. The State agency shall also describe to a household in writing and in understandable terms the expedited processing requirements of section 11(a)(9) and inform each household that benefits are provided only from the date of application. The State agency shall also describe to each household in writing and in understandable

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terms the appropriate civil and criminal provisions dealing with violations of this Act, including the penalties therefor, by members of an eligible household. The State agency shall also inform each applicant in writing and in understandable terms that the information provided by the applicant in connection with the application for a coupon allotment will be subject to verification by Federal, State, and local officials to determine if such information is factual and that if any material part of such information is incorrect, food stamps may be denied to the applicant, and that the applicant may be subjected to criminal prosecution for knowingly providing incorrect information."; and

(4) striking in the sentence beginning "The State agency shall require" the words "that the information contained in the application is true" and inserting in lieu thereof "that the State agency has provided the information required by this paragraph, that the applicant understands the information provided, that the information in the application is true,".

#### PART C -- ECONOMIC INDEPENDENCE

##### SUBPART 1 -- Individual Development Account Demonstrations

###### SEC. 731. SHORT TITLE.

This title may be cited as the "Individual Development Account Demonstration Act of 1994".

###### SEC. 732. DECLARATION OF POLICY AND STATEMENT OF PURPOSE.

(a) **DECLARATION OF POLICY.**—It is the policy of the United States—

(1) to eliminate barriers that prevent recipients of Aid to Families with Dependent Children (AFDC) from becoming self-sufficient through self-employment and asset accumulation;

(2) to identify and implement cost-effective strategies to encourage saving and entrepreneurship among the broadest possible range of low-income families, particularly families eligible for AFDC, and that have the potential to reduce Federal spending on transfers and services to the disadvantaged;

(3) to enhance private-sector opportunities for low-income families by enabling them to use their own human and financial resources through expansion of business investment, job creation, home ownership, and human capital investment; and

(4) to expand the capacity of local organizations to provide asset-related services that help people to help themselves such as savings mechanisms, loan funds, technical assistance, and entrepreneurial training.

(b) **STATEMENT OF PURPOSE.**—The purpose of the demonstration projects authorized under this title is to provide for a means of determining—

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(1) the social, psychological, and economic effects of providing low-income individuals the opportunity to accumulate assets and develop and utilize entrepreneurial skills; and

(2) the extent to which an asset-based assistance policy may be used to enable individuals with low-income to achieve economic self-sufficiency.

SEC. 733. INDIVIDUAL DEVELOPMENT ACCOUNT DEMONSTRATION PROJECTS.

(a) IN GENERAL.—Not later than one year after the date of enactment of this Act, any State or local government, or any qualified organization may apply to the Administrator/Chairperson of the Community Development Bank and Financial Institutions Fund (hereinafter the Administrator/Chairperson) for a grant to conduct individual development account demonstration projects for eligible persons.

(b) CONTENTS.—Each application shall—

(1) describe the demonstration project;

(2) describe the persons who will participate in the project;

(3) demonstrate the ability of the applicant—

(A) to assist project participants in achieving economic self-sufficiency through the project; and

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(B) to assist project participants in developing greater knowledge about savings, investments, and other financial matters;

(C) to oversee the use of grant funds, including the documentation and verification of start-up expenses in the case of entrepreneurial assistance; and

(D) to effectively administer the project;

(4) in the case of a qualified organization, document a commitment by the State in which the project is to be conducted to provide a specified amount of funds to the qualified organization for the project, and any similar commitment made to the qualified organization by any other non-Federal public entity or by any private entity;

(5) contain a plan for maintaining data and other information concerning assistance provided to project participants sufficient to evaluate the project and a certification that the applicant will fully cooperate and provide access to all information concerning the project in connection with any evaluation of the project conducted pursuant to subsection (1); and

(6) contain such other information as the Administrator/Chair may prescribe.

(c) CRITERIA.—In considering whether to approve an application, the Administrator/Chairperson shall assess the following:

(1) The degree to which the project described in the application is likely to aid project participants in achieving economic self-sufficiency through activities requiring qualified expenses. In making such assessment, the Administrator/Chairperson shall consider the overall quality of project activities and shall not consider any particular kind or combination of such qualified expenses to be an essential feature of any project.

(2) The ability of the applicant to responsibly administer the project.

(3) The amount of funds from non-Federal sources that are committed to the project.

(4) The adequacy of the plan for maintaining information necessary to evaluate the project.

(d) APPROVAL.—

(1) The Administrator/Chairperson shall, on a competitive basis, approve such applications to conduct demonstration projects under this section as the Administrator/Chairperson deems appropriate on the basis of the criteria described in subsection (c).

(2) No court shall have jurisdiction to review the approval or nonapproval of any application by the Administrator/Chairperson.

(e) DEMONSTRATION AUTHORITY; ANNUAL GRANTS.—

(1) DEMONSTRATION AUTHORITY.—The approval by the Administrator of an application shall authorize the applicant (hereinafter the grantee) to conduct the project for five project years in accordance with the approved application and the requirements of this section.

(2) ANNUAL GRANTS.—The Administrator/Chairperson shall make a grant to each grantee on the first day of each project year.

(f) RESERVE FUND.—

(1) ESTABLISHMENT.—Each grantee shall establish a reserve fund that shall be used in accordance with this subsection.

(2) DEPOSITS.—

(A) As soon after receipt as is practicable, a grantee shall deposit into the reserve fund—

(i) all annual grants made by the Administrator/Chairperson;

(ii) all funds provided to the grantee by any non-Federal public or private entity to conduct the demonstration project;

(iii) all proceeds from any investments made pursuant to paragraph (4); and

(iv) all amounts title to which vests in the grantee pursuant to subsection (h)(5).

(3) EXPENDITURES.—A grantee shall use amounts in the reserve fund only—

(A) to assist project participants in obtaining the skills and information necessary to achieve economic self-sufficiency through activities requiring the payment of qualified expenses;

(B) to provide financial assistance in accordance with subsection (h) to project participants;

(C) to administer the project; and

(D) to maintain and provide information necessary for the evaluation of the project pursuant to subsection (l).

(4) AUTHORITY TO INVEST FUNDS.—A grantee entity may invest amounts in the reserve fund that are not immediately needed to make expenditures authorized by paragraph (3), in highly liquid low risk investments in accordance with guidelines issued by the Administrator/Chairperson in consultation with the Secretary of the Treasury.

(5) ACCOUNTING STANDARDS.—The Administrator/Chairperson shall prescribe regulations governing the accounting of amounts deposited in and withdrawn from reserve funds.

(6) TERMINATION OF PROJECT.—Notwithstanding paragraph (3), upon the termination of any demonstration project

approved under this section, remaining amounts in the reserve fund established with respect to such project and remaining investments made from amounts in the reserve fund shall be distributed to the Administrator/Chairperson and each non-Federal public or private entity that contributed to the project in proportion to their contributions.

(g) SELECTION OF ELIGIBLE PERSONS TO RECEIVE ASSISTANCE.—

A grantee shall provide individual development account assistance to eligible persons whom the grantee deems to be best situated to benefit from such assistance, taking into account the amount of grants made by the Administrator/Chairperson and other funds available to the grantee for such assistance.

(h) FINANCIAL ASSISTANCE FOR INDIVIDUAL DEVELOPMENT ACCOUNTS.—

(1) IN GENERAL.—A grantee shall provide initial financial assistance to a project participant who establishes an individual development account, not to exceed \$500 per participant. Such financial assistance shall be deposited in the individual development account established by a project participant.

(2) MATCHING CONTRIBUTIONS.—The Administrator/Chairperson or a grantee may make matching contributions of not less than 50 cents and not more than \$4 for every \$1 dollar deposited into an individual development account by a

project participant, not to exceed \$2,500 for any project participant.

(3) LIMITATION ON USE.—

(A) Financial assistance provided pursuant to paragraph (1) shall not be available for use by a project participant until—

(i) the individual development account is closed; and

(ii) a project participant has deposited into the individual development account an amount equal to the initial financial assistance provided pursuant to paragraph (1).

(B) Financial assistance provided pursuant to paragraph (1) or (2) shall be used by a project participant only for the payment of qualified expenses.

(4) APPLICABILITY OF OTHER LAW.—The provisions of section 529 of the Internal Revenue Code of 1986 (26 U.S.C. 529) and such rules, regulations and procedures as may be prescribed by the Secretary of the Treasury under such Code shall apply to an individual development account for which financial assistance is provided pursuant to this subsection.

(5) EFFECT OF PROHIBITED TRANSACTIONS.—In the event that an individual development account ceases to be an

individual development account under the provisions of section 529(e) of the Internal Revenue Code of 1986 (26 U.S.C. 529(e)), title to all amounts in such account attributable to financial assistance provided pursuant to paragraph (1) or (2) shall vest in the grantee providing financial assistance pursuant to paragraph (1) and such amounts shall be paid to such grantee.

(i) LOCAL CONTROL OVER DEMONSTRATION.—

(1) Each grantee shall, subject to the provisions of subsection (k), have sole responsibility for the administration of demonstration projects approved by the Administrator/Chairperson.

(2) The Administrator/Chairperson may prescribe such regulations as may be necessary to ensure that grantees comply with the terms of approved applications and the requirements of this section.

(j) ANNUAL REPORTS.—

(1) IN GENERAL.—Each grantee shall annually report to the Administrator/Chairperson concerning the progress of each approved demonstration project administered by such grantee. The report shall, at a minimum—

(A) describe project participants;

(B) contain an audited financial statement for the reserve fund established with respect to the project;

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(C) provide information on amounts deposited in individual development accounts of project participants to whom such assistance is provided under the project; and

(D) such other information as the Administrator/Chairperson may require with respect to the evaluation of the project pursuant to subsection (1).

(2) SUBMISSION.—Reports required by paragraph (1) shall be submitted annually not later than the anniversary of the date the Administrator/Chairperson approved the application for the demonstration project.

(3) COORDINATION WITH STATE GOVERNMENT.—A grantee shall transmit a copy of each report required by paragraph (1) to the Treasurer (or equivalent official) of the State in which the project is conducted at the time prescribed by paragraph (2).

(K) SANCTIONS.—

(1) REVOCATION OF DEMONSTRATION AUTHORITY.—If the Administrator/Chairperson determines a grantee is not conducting a demonstration project in accordance with the approved application and the requirements of this section, and has failed to undertake corrective action satisfactory to the Administrator/Chairperson, the Administrator/Chairperson may revoke the approval to conduct the

project. A determination by the Administrator/Chairperson to revoke the approval for a demonstration project shall not be subject to review by any court.

(2) ACTIONS REQUIRED UPON REVOCATION.—

(A) If the Administrator/Chairperson revokes approval to conduct a demonstration project pursuant to paragraph (1), the Administrator/Chairperson—

(i) shall suspend the project;

(ii) shall take control of the reserve fund established pursuant to subsection (f) with respect to such project; and

(iii) shall solicit applications from entities described in subsection (a) to conduct the suspended project in accordance with the approved application (or under such terms and conditions as the Administrator may prescribe) and the requirements of this section.

(B) If the Administrator/Chairperson approves an application to conduct the suspended project, the Administrator/Chairperson shall transfer to the new grantee control of the reserve fund established pursuant to subsection (f) for the project, and such grantee shall be considered to be the original grantee for purposes of this section. The date the Administrator/Chairperson approved the application of the

new grantee to conduct the suspended project shall apply for purposes of the annual reports required by subsection (j).

(C) If the Administrator/Chairperson has not approved an application to conduct a project by the date that is one year after approval to conduct the project was revoked, the Administrator/Chairperson shall—

(i) terminate the project; and

(ii) distribute remaining amounts in the reserve fund for such project and investments made from amounts in the reserve fund in accordance with the provisions of subsection (f)(6).

(1) PROJECT EVALUATIONS.—

(1) IN GENERAL.—Not later than six months after the date of enactment of this Act, the Administrator/Chairperson, in consultation with the Secretary of the Treasury and the Secretary of the Department of Health and Human Services, shall enter into a contract with an independent organization (hereinafter "evaluator") for the evaluation of individual demonstration projects conducted pursuant to this section and the effectiveness of assistance provided to eligible persons pursuant to this section.

(2) EVALUATIONS.—In entering into the contract provided for in paragraph (1), the Administrator/Chairperson should consider providing for evaluation of—

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(A) the types of information and public education efforts that attract project participants;

(B) the accessibility of the demonstration project by participants and the ease of participation;

(C) the level of financial assistance required to stimulate participation in the demonstration project, and whether such level varies among different demographic populations;

(D) whether project features utilized in conjunction with individual development accounts (such as peer support, structured planning exercises, mentoring, and case management) contribute to participation in the project;

(E) the level of self-sufficiency achieved by project participants as measured by employment or self-employment rates, earned and investment income, exit rates, poverty rates, and recidivism rates, particularly for program participants eligible for food stamp benefits and AFDC;

(F) the reduction in the level of public expenditure on project participants as measured by changes in overall support payments including AFDC, food stamp benefits, Federal child care assistance, Federal housing assistance, JOBS, and other benefits, taking into

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account costs incurred by the Federal Government in support of demonstration projects;

(G) the level of asset accumulation by project participants as measured by savings rates, net worth, business start-ups, human capital investments, new homes, number of loans to low-income and AFDC eligible families, and whether asset accumulation continued after a subsidy or other assistance;

(H) the economic, psychological, and social effects of asset accumulation; and

(I) the circumstances concerning and the extent to which asset accumulation by project participants contributes to—

(i) a greater sense of security and control and positive outlook;

(ii) greater household stability;

(iii) increased long-term planning;

(iv) increased efforts to maintain and develop assets;

(v) greater knowledge about savings, investments, and other financial matters;

(vi) increased effort and success in educational achievement within the household;

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(vii) increased specialization in career development;

(viii) improved social status;

(ix) increased political participation;

(x) increased community involvement;

(xi) increased earned income;

(xii) decreased reliance on traditional forms of public assistance, with particular emphasis on food stamp benefits and AFDC; and

(xiii) increased tendency to save during and after the period of project participation.

(3) **METHODOLOGICAL REQUIREMENTS.**—In evaluating any demonstration project conducted under this section, the evaluator should obtain such quantitative data before, during, and after the project, as is necessary to evaluate the project.

(m) **DEFINITIONS.**—As used in this section:

(1) **HOUSEHOLD.**—The term "household" means all individuals who share use of a dwelling unit as primary quarters for living and eating separately from other individuals.

(3) **NET WORTH.**—

(A) **IN GENERAL.**—Except as provided in subparagraph (B), the term "net worth" means, with respect to a household, the aggregate fair market value of all

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assets that are owned in whole or in part by any member of the household, less the obligations or debts of any member of the household.

(B) ASSETS EXCLUDED.—Net worth shall be determined without taking into account the fair market value and the obligations or debts of—

(i) the primary dwelling unit of the household;

(ii) the motor vehicle having the greatest equity value; and

(iii) items essential for daily living, such as clothes, furniture, and similar items of limited value.

(4) INDIVIDUAL DEVELOPMENT ACCOUNT.—The term "individual development account" shall have the same meaning given such term in section 529 of the Internal Revenue Code of 1986 (26 U.S.C. 529).

(5) PROJECT YEAR.—The term "project year" means with respect to a demonstration project, any of the five consecutive 12-month periods beginning on the date the project is approved by the Administrator.

(6) QUALIFIED ORGANIZATION.—The term "qualified organization" means a community development financial institu-

tion as defined in section \_\_\_\_ of the Community Development Banking and Financial Institutions Act of 1994.

(7) ELIGIBLE PERSON DEFINED.—The term "eligible person" means any person who is a member of a household that meets all of the following requirements:

(A) EITC TEST.—The household has at least one individual who is an eligible individual within the meaning of section 32(c)(1) of the Internal Revenue Code of 1986 for purposes of the earned income tax credit.

(B) INCOME TEST.—The household did not have adjusted gross income (as determined pursuant to the Internal Revenue Code of 1986) in the immediately preceding calendar year in excess of \$18,000.

(C) NET WORTH TEST.—The net worth of the household, as of the close of the immediately preceding calendar year, did not exceed \$20,000.

(8) QUALIFIED EXPENSES.—The term "qualified expenses" shall have the same meaning as provided in section 529(c)(1) of the Internal Revenue Code of 1986 (26 U.S.C. 529(c)(1)).

(n) AUTHORIZATION OF APPROPRIATIONS.—To carry out the purposes of this section there are authorized to be appropriated to the Administrator/Chairperson--

(1) \$10,000,000 for fiscal year 1997,

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- (2) \$20,000,000 for each of fiscal years 1998, 1999, 2000, and 2001, and
- (3) \$10,000,000 for fiscal year 2002.

## SEC. 734. INDIVIDUAL DEVELOPMENT ACCOUNTS

(a) IN GENERAL.—Subchapter F of chapter 1 of the Internal Revenue Code of 1986 (relating to additional itemized deductions for individuals) is amended by adding at the end of the following new part:

## "PART VIII—INDIVIDUAL DEVELOPMENT ACCOUNTS

## "SEC. 529. INDIVIDUAL DEVELOPMENT ACCOUNTS

## "(a) ESTABLISHMENT OF ACCOUNTS.—

"(1) IN GENERAL.—An individual development account may be established by or on behalf of an eligible individual for the purpose of accumulating funds to pay the qualified expenses of such individual.

"(2) ELIGIBLE INDIVIDUAL.—The term 'eligible individual' means an individual—

"(A) for whom assistance is provided under section 3(h) of the Individual Development Account Demonstration Act;

"(B) receiving assistance under 42 U.S.C. 601 et seq.; or

"(C) receiving assistance under 7 U.S.C. 2011 et seq.

"(b) LIMITATIONS.—

"(1) ACCOUNT TO BENEFIT ONE INDIVIDUAL.—An individual development account may not be established for the benefit of more than one individual.

"(2) MULTIPLE ACCOUNTS.—If, at any time during a calendar year, two or more individual development accounts are maintained for the benefit of an eligible individual, such individual shall be treated as an eligible individual for such year only with respect to the account first established.

"(3) ANNUAL LIMIT.—Contributions to an individual development account by an eligible individual for any taxable year shall not exceed the lesser of \$2,000 or 100% of earned income within the meaning of section 32(c)(2). No contribution to the account under section 733(h) of the Individual Development Account Demonstration Act shall be taken into account for the purposes of this paragraph.

"(c) DEFINITIONS AND SPECIAL RULES.—For the purposes of this section—

"(1) QUALIFIED EXPENSES.—The term 'qualified expenses' means one or more of the following, as provided by the entity providing assistance to the eligible individual under section 733(h) of the Individual Development Account Demonstration Act:

"(A) POST-SECONDARY EDUCATION EXPENSES.—Post-secondary educational expenses paid from an individual development account directly to an eligible educational institution. For the purposes of this subparagraph—

"(i) the term 'post-secondary educational expenses' means—

"(I) tuition and fees required for the enrollment or attendance of a student at an eligible educational institution;

"(II) fees, books, supplies, and equipment required for courses of instruction at an eligible educational institution; and

"(III) a reasonable allowance for meals, lodging, transportation, and child care, while attending an eligible educational institution; and

"(ii) the term 'eligible educational institution' means—

"(I) an institution described in section 481(a)(1) or 1201(a) of the Higher Education Act of 1965 (20 U.S.C. 1088(a)(1) or 1141(a)), as such sections are in effect on the date of the enactment of this section; and

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"(II) an area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Act (20 U.S.C. 2471 (4))) in any State (as defined in section 521(33) of such Act), as such section is in effect on the date of the enactment of this section.

"(B) FIRST-HOME PURCHASE.—Qualified acquisition costs with respect to a qualified principal residence for a qualified first-time homebuyer, if paid from an individual development account directly to the persons to whom the amounts are due. For purposes of this subparagraph—

"(i) the term 'qualified acquisition costs' means the costs of acquiring, constructing, or reconstructing a residence, and includes any usual or reasonable settlement, financing, or other closing costs;

"(ii) the term 'qualified principal residence' means a principal residence (within the meaning of section 1034), the qualified acquisition costs of which do not exceed 80 percent of the average area purchase price applicable to such

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residence (determined in accordance with paragraphs (2) and (3) of section 143(e));

"(iii) the term 'qualified first-time home-buyer' means a taxpayer (and, if married, the taxpayer's spouse) who has no present ownership interest in a principal residence during the three-year period ending on the date on which a binding contract was entered into to acquire, construct, or reconstruct the principal residence to which this subparagraph applies.

"(C) BUSINESS CAPITALIZATION.—Amounts paid from an individual development account directly into a business capitalization account which is established in a federally insured financial institution and is restricted to use solely for qualified business capitalization expenses. For purposes of this subparagraph—

"(i) the term 'qualified business capitalization expenses' means qualified expenditures for the capitalization of a qualified business pursuant to a qualified plan;

"(ii) the term 'qualified expenditures' means expenditures included in a qualified plan, includ-

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ing capital, plant, equipment, working capital, and inventory expenses;

"(iii) the term 'qualified business' means any business that does not contravene any law or public policy (as determined by the Administrator of the Community Development Bank and Financial Institutions Fund);

"(iv) the term 'qualified plan' means a business plan—

"(I) that is approved by a financial institution, or any other institution designated as a community development financial institution, having demonstrated fiduciary integrity;

"(II) that includes a description of services or goods to be sold, a marketing plan, and projected financial statements; and

"(III) that may require the eligible individual to obtain assistance of an experienced entrepreneurial advisor.

"(D) TRANSFERS TO IDAs OF FAMILY MEMBERS.—Amounts in an individual development account may be paid or transferred directly into another such account estab-

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lished for the benefit of an eligible individual who is—

"(i) the taxpayer's spouse; or

"(ii) any dependant of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151.

"(2) INDIVIDUAL DEVELOPMENT ACCOUNT.—The term 'individual development account' means a trust created or organized in the United States exclusively for the purpose of paying the qualified expenses of an eligible individual, but only if the written instrument creating the trust meets the following requirements:

"(A) No contribution will be accepted unless it is in cash or check.

"(B) The trustee is a financial institution insured by an instrumentality of the Federal Government.

"(C) The assets of the account will be invested only in federally insured deposits and/or stock of a regulated investment company within the meaning of section 851(a), in accordance with the direction of the eligible individual.

"(D) The assets of the trust will not be commingled with other property except in a common trust fund or common investment fund.

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"(E) Except as provided in subparagraph (F), any amount in the account which is attributable to assistance provided under section 733(h) of the Individual Development Account Demonstration Act may be paid or distributed out of the account only for the purpose of paying the qualified expenses of the eligible individual.

"(F) (i) Any balance in the account on the day after the date on which the individual for whose benefit the trust is established dies will be transferred within 60 days of such date as directed by such individual to another individual development account established for the benefit of an individual who is a family member described in subsection (c)(1)(D) and who is an eligible individual, or who was an eligible individual on the day immediately preceding the date on which the individual for whose benefit the trust is established dies.

"(ii) In any case where clause (i) does not apply, the portion of the account attributable to contributions other than those provided under section 733(h) of the Individual Development Account Demonstration Act shall be paid out within five years of the date of death to the beneficiaries of the individual for whose

benefit the account was established, and the balance shall be transferred within 60 days of the day after the date of death to another individual development account established for the benefit of an eligible individual who may be designated by the individual for whose benefit the account was established.

"(3) TIME WHEN CONTRIBUTIONS DEEMED MADE.—A taxpayer shall be deemed to have made a contribution to an individual development account on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof).

"(d) TAX TREATMENT OF DISTRIBUTIONS.—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, any amount paid or distributed out of an individual development account shall be included in gross income of the payee or distributee for the taxable year in the manner provided in section 72.

"(2) TREATMENT OF ASSISTANCE CONTRIBUTIONS.—

"(A) DISTRIBUTIONS USED TO PAY QUALIFIED EXPENSES.—If a distribution or payment from an individual development account is used exclusively to pay the qualified expenses incurred by the individual for whose

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benefit the account is established, then, for purposes of section 72, assistance contributions made to such individual development account under section 3(h) of the Individual Development Account Demonstration Act shall be treated in the same manner as contributions made by the eligible individual.

"(B) DISTRIBUTIONS NOT USED TO PAY QUALIFIED EXPENSES.—If a distribution or payment from an individual development account is not used exclusively to pay the qualified expenses incurred by the individual for whose benefit the account is established, then, for purposes of section 72, assistance contributions made to such individual development account under section 3(h) of the Individual Development Account Demonstration Act shall be treated in the same manner as earnings on the account.

"(e) TAX TREATMENT OF ACCOUNTS.—

"(1) EXEMPTION FROM TAX.—An individual development account is exempt from taxation under this subtitle unless such account has ceased to be an individual development account by reason of paragraph (2). Notwithstanding the preceding sentence, any such account is subject to the taxes imposed by section 511 (relating to imposition of tax on

unrelated business income of charitable, etc. organizations).

"(2) LOSS OF EXEMPTION OF ACCOUNT WHERE INDIVIDUAL ENGAGES IN PROHIBITED TRANSACTION.--

"(A) IN GENERAL.—If the individual for whose benefit an individual development account is established or any individual who contributes to such account engages in any transaction prohibited by section 4975 p862Xrespect to the account, the account shall cease to be an individual development account as of the first day of the taxable year (of the indl so engaging in such transaction) during which such transaction occurs.

"(B) ACCOUNT TREATED AS DISTRIBUTING ALL ASSETS.—In any case in which any account ceases to be an individual development account by reason of subparagraph (A) as of the first day of any taxable year—

"(i) all assets in the account on such first day that are attributable to assistance provided under section 733(h)(1) and (2) of the Individual Development Account Demonstration Act shall be paid as provided in section 733(h)(5) of such Act; and

"(ii) the provisions of subsection (d)(1) shall apply as if there was a distribution on such first day in an amount equal to the fair market value of all other assets in the account on such first day.

"(3) EFFECT OF PLEDGING ACCOUNT AS SECURITY.—If, during any taxable year, the individual for whose benefit an individual development account is established, or any individual who contributes to such account, uses the account or any portion thereof as security for a loan—

"(A) an amount equal to the part of the portion so used which is attributable to assistance provided under section 733(h)(1) and (2) of the Individual Account Demonstration Act shall be paid as provided in section 733(h)(5) of such Act; and

"(B) the remaining part of the portion so used shall be treated as distributed under the provisions of subsection (d)(1) to the individual so using such portion.

"(f) ADDITIONAL TAX ON CERTAIN AMOUNTS INCLUDED IN GROSS INCOME.—

"(1) DISTRIBUTION NOT USED FOR QUALIFIED EXPENSES.—In the case of any payment or distribution that is not used exclusively to pay qualified expenses incurred by the eligi-

ble individual for whose benefit the account is established, the tax liability of each payee or distributee under this chapter for the taxable year in which the payment or distribution is received shall be increased by an amount equal to 10 percent of the amount of the distribution that is included in the gross income of such payee or distributee for such taxable year.

"(2) DISQUALIFICATION CASES.—If any amount includible in the gross income of an individual for a taxable year because such amount is required to be treated as a distribution under paragraph (2) or (3) of subsection (e), the tax liability of such individual under this chapter for such taxable year shall be increased by an amount equal to 10 percent of such amount required to be treated as a distribution and included in the gross income of such individual.

"(3) DISABILITY OR DEATH CASES.—Paragraphs (1) and (2) shall not apply if the payment or distribution is made after the individual for whose benefit the individual development account becomes disabled within the meaning of section 72(m)(7) or dies.

"(g) COMMUNITY PROPERTY LAWS.—This section shall be applied without regard to any community property laws.

"(h) CUSTODIAL ACCOUNTS.—For purposes of this section, a custodial account shall be treated as a trust if the assets of

such account are held by a bank (as defined in section 408(n)) or another person who demonstrates, to the satisfaction of the Administrator of the Community Development Bank and Financial Institutions Fund, that the manner in which he will administer the account will be consistent with the requirements of this section, and if the custodial account would, except for the fact that it is not a trust, constitute an individual development account described in subsection (c)(2). For purposes of this title, in the case of a custodial account treated as a trust by reason of the preceding sentence, the custodian of such account shall be treated as the trustee thereof.

"(i) REPORTS.—The trustee of an individual development account shall—

"(1) prepare reports regarding the account with respect to contributions, distributions, and any other matter required by the Administrator of the Community Development Bank and Financial Institutions Fund under regulations; and

"(2) submit such reports, at the time and in the manner prescribed by the Administrator of the Community Development Bank and Financial Institutions Fund in regulations, to—

"(A) the individual for whose benefit the account is maintained;

"(B) the organization providing assistance to the individual under section 733(h) of the Individual Account Demonstration Act; and

"(C) the Administrator of the Community Development Bank and Financial Institutions Fund."

(b) CONTRIBUTION NOT SUBJECT TO THE GIFT TAX.—Section 2503 of the Internal Revenue Code of 1986 (26 U.S.C. 2503) (relating to taxable gifts) is amended by adding at the end thereof the following new subsection:

"(h) INDIVIDUAL DEVELOPMENT ACCOUNTS.—Any contribution made by an individual to an individual development account described in section 529(c)(2) shall not be treated as a transfer of property by gift for purposes of this chapter."

(c) TAX ON PROHIBITED TRANSACTIONS.—Section 4975 of the Internal Revenue Code of 1986 (26 U.S.C. 4975) (relating to prohibited transactions) is amended—

(1) by adding at the end of subsection (c) the following new paragraph:

"(4) SPECIAL RULE FOR INDIVIDUAL DEVELOPMENT ACCOUNTS.—An individual for whose benefit an individual development account is established and any contributor to such account shall be exempt from tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under

this section) if, with respect to such transaction, the account ceases to be an individual development account by reason of section 529(e)(2)(A) to such account.";

and

(2) in subsection (e)(1), by inserting ", an individual development account described in section 529(c)(2)" after "section 408(a)".

(d) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL DEVELOPMENT ACCOUNTS.—Section 6693 of the Internal Revenue Code of 1986 (26 U.S.C. 6693) (relating to failure to provide reports on individual retirement accounts or annuities) is amended—

(1) in the heading of such section, by inserting "OR ON INDIVIDUAL DEVELOPMENT ACCOUNTS" after "ANNUITIES"; and

(2) by adding at the end of subsection (a) the following new sentence: "The person required by section 529(i) to file a report regarding an individual development account at the time and in the manner required by such section shall pay a penalty of \$50 for each failure, unless it is shown that such failure is due to reasonable cause."

(e) SPECIAL RULE FOR DETERMINING AMOUNTS OF SUPPORT FOR DEPENDENT.—Section 152(b) of the Internal Revenue Code of 1986 (26 U.S.C. 152(b)) (relating to definition of dependent) is amended by adding at the end the following new paragraph:

"(6) A distribution from an individual development account described in section 529(c)(2) used exclusively to pay qualified expenses described in section 529(c)(1) of the individual for whose benefit the account is established shall not be taken into account in determining support for such individual for purposes of this section."

(f) CLERICAL AMENDMENTS.—

(1) The table of parts for subchapter F of chapter 1 of such Code is amended by inserting at the end the following new item:

"Part VIII. Individual Development Accounts."

(2) The table of sections for subchapter B of chapter 68 of such Code is amended by amending the item relating to section 6693 to read as follows:

"Sec. 6693. Failure to provide reports on individual development accounts or annuities or on individual development accounts."

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to contributions made after the enactment of the Act.

TITLE VIII - SELF EMPLOYMENT/MICROENTERPRISE DEMONSTRATIONS  
 SEC. 801. DEMONSTRATION PROGRAM TO PROVIDE SELF-EMPLOYMENT OPPORTUNITIES TO WELFARE RECIPIENTS AND LOW-INCOME INDIVIDUALS.

(a) IN GENERAL.—The Secretary of Health and Human Services (hereinafter in this section referred to as the "Secretary") and

the Administrator of the Small Business Administration (hereinafter in this section referred to as the "Administrator"), shall jointly develop a self-employment/microenterprise demonstration program for at least five years in length that will build on the experience of microenterprise and self-employment programs previously carried out by the Federal Government and other entities. The program shall be designed--

(1) to identify regulatory and other barriers that prevent welfare recipients and low-income individuals from increasing self-sufficiency through self-employment and microenterprise development, and to identify and test effective means to eliminate such barriers;

(2) to develop and evaluate promising program models, based upon existing effective practices, which have the potential to (A) increase the number of welfare recipients and low-income individuals who become self-sufficient or increase self-sufficiency through self-employment and microenterprise development and (B) reduce Federal spending on transfer payments and services to welfare recipients and low-income individuals; and

(3) to demonstrate the potential for expanding the capacity of local organizations to provide services, technical assistance and loans which help welfare recipients and low-

income individuals start or expand self-employment or microenterprises.

(b) USE OF INTERMEDIARIES.--To carry out such program, the Secretary and Administrator shall jointly enter into agreements with local intermediaries that--

- (1) apply to participate in such program, and
- (2) demonstrate that they are capable of implementing the provisions of the agreement.

(c) PROGRAM DESIGN.--In order to facilitate a randomized evaluation, as provided for in subsection (i)(1) below, the Secretary and Administrator shall identify those predominate and effective program models currently used by existing intermediaries to provide self-employment and related services to low-income individuals, and shall design the demonstration program in order to evaluate at least two distinct types of program models with contrasting levels of technical assistance. In designing the demonstration program, the Secretary and Administrator shall consult with appropriate parties, such as--

- (1) state and local agencies and private, nonprofit organizations with experience in administering self-employment programs that serve low-income individuals; and
- (2) other persons with recognized expertise in conducting randomized evaluations of self-employment programs or other related programs.

(d) ASSISTANCE TO INTERMEDIARIES.--

(1) IN GENERAL.--To carry out the program, the Secretary and Administrator may provide the following assistance to intermediaries selected to participate in the program--

(A) grants for providing technical assistance to eligible individuals, for operating costs and for costs associated with participating in the evaluation provided for in subsection (i)(1) below;

(B) loans guarantees; and

(C) loans.

(2) TECHNICAL ASSISTANCE TO INTERMEDIARIES.--The Secretary and Administrator may provide grants to intermediaries or third-party technical assistance providers for the provision of technical assistance to intermediaries selected to participate in this program.

(3) TERMINATION OF ASSISTANCE.--Assistance awarded pursuant to this section may fully fund project periods of up to five years. The Secretary and Administrator may revoke, terminate or reduce assistance to an intermediary if the intermediary fails to comply with the terms of any agreement it enters into with the Secretary and Administrator.

(e) SELECTION OF INTERMEDIARIES.--

(1) IN GENERAL.--In determining whether to enter into an agreement with an intermediary under this section, the Secretary and Administrator shall take into consideration--

(A) the intermediary's record of success in serving low-income individuals;

(B) the intermediary's record of success in providing technical assistance or loans to low-income individuals for the purpose of self-employment;

(C) the nature, types, and costs of technical assistance and/or lending methods the intermediary will employ in serving the target population;

(D) the intermediary's ability to obtain matching funds from private sources; and

(E) such other matters as the Secretary and Administrator deem appropriate.

(2) ADDITIONAL PROGRAMS.--In addition to the demonstration program provided for in subsection (c) above, the Secretary and Administrator may select up to five intermediaries that would employ program models that would operate independently of the randomized evaluation provided for in subsection (i)(1) below, where such program models demonstrate promising, innovative strategies that could not readily be evaluated by a randomized experimental design.

(f) ELIGIBLE INDIVIDUALS.--An individual eligible to participate in a program conducted under this section is any low-income individual or welfare recipient. The Secretary and Administrator shall ensure that an appropriate minimum percentage of welfare recipients will participate in each demonstration program funded under this section.

(g) PROVISIONS OF AGREEMENTS.--Any agreement entered into with an intermediary under this section shall provide that--

(1) the intermediary has or will have an agreement with the local agency responsible for administering the job opportunities and basic skills training program (as provided for under part F of title IV of the Social Security Act) (hereinafter in this section referred to as the "JOBS" programs) and the Work Program (as provided for part G under title IV of such Act) such that JOBS and Work program funds will be used to provide support services, including training and technical assistance, to participants in the demonstration programs funded under this section;

(2) the intermediary will implement a program that is approved by the Secretary and Administrator;

(3) the intermediary will cooperate with any independent evaluator(s) selected pursuant to subsection (i) below; and

(4) the intermediary will meet any other obligations required by the Secretary and Administrator, including any fund matching requirements.

(h) PROGRAM ADMINISTRATION.--

(1) IN GENERAL.--The Secretary and Administrator shall enter into a memorandum of understanding for the joint administration of the demonstration programs provided for by this section. The designation of intermediaries to participate in the program shall be completed no later than 12 months after the date of appropriation of funds for this Act.

(2) COORDINATION WITH OTHER AGENCIES.--The Secretary and Administrator shall also coordinate and consult with the Secretaries of the Department of Agriculture, the Department of Housing and Urban Development, and the Department of Labor, on regulatory or other reforms or coordinated efforts by such agencies that may further eliminate barriers to self-employment and legitimize microenterprise development by low-income individuals and welfare recipients.

(i) EVALUATION AND REPORT.--

(1) IN GENERAL.--The Secretary, in consultation with the Administrator, shall conduct or provide for an evaluation of the effectiveness of the demonstration program provided for in subsection (c) above and shall prepare and submit to the

President and Congress a preliminary report of the evaluation no later than three years following the designation of intermediaries and a final report no later than seven years following such designation, together with such recommendations, including recommendations for legislation, as the Secretary and Administrator deem appropriate. Such evaluation shall be based on an experimental design with random assignment between a treatment group and a control group. In designing the evaluation, the Secretary shall consider testing for--

(A) greater self-sufficiency as measured by employment and self-employment rates, amount of earned income, poverty rates, and exit and recidivism rates for Aid to Families With Dependent Children (hereinafter in this section referred to as "AFDC"), Food Stamps and other public assistance programs;

(B) reduced costs of public support as measured by changes in overall support payments for items such as income maintenance, food, child care, health care, housing, job training and other benefits;

(C) number of businesses and jobs created, number of loans to welfare recipients and low-income individuals, repayment rates for loans, and business performance after welfare or other public assistance ends;

(D) the relative effectiveness, cost-to-benefit ratio, and degree of financial self-sufficiency of the different program models employed by the intermediaries participating in the demonstration program;

(E) the program's impact and effectiveness in serving participants in a time-limited welfare system, as compared to other low-income individuals; and

(F) the effectiveness and cost-to-benefit ratio of any modifications effected under section(s) \_\_\_ of this Act [liberalizations of the income, resource or business asset disregard rules relevant to microenterprise] in helping welfare recipients and low-income individuals in both the control and treatment groups become self-employed.

(2) EVALUATION OF ADDITIONAL PROGRAMS.--The Secretary, in consultation with the Administrator, shall also conduct or provide for an independent evaluation of the effectiveness of any program models selected pursuant to subsection (e)(2) above and shall prepare and submit to the President and Congress a preliminary report of the evaluation no later than three years following the designation of intermediaries, and a final report no later than five years following such designation, together with such

recommendations, including recommendations for legislation, as the Secretary and Administrator deem appropriate.

(3) PRELIMINARY REPORTS TO CONGRESS.--The preliminary reports provided for in paragraphs (1) and (2) of this subsection shall include an analysis of any regulatory or other barriers that prevent welfare recipients and low-income individuals from becoming self-sufficient through self-employment and microenterprise development.

(4) REQUIRED INFORMATION.--The Secretary may require each intermediary selected pursuant to this section to provide the Secretary with such information as the Secretary determines is necessary to carrying out the duties of this subsection.

(5) EARLY AND REGULAR INFORMATION SHARING WITH INTERMEDIARIES.--The Secretary, in consultation with the Administrator, shall provide early and regular feedback and summaries to intermediaries selected to participate pursuant to this section of the progress of the evaluation, the data collected during the evaluation, preliminary findings and such other information as the Secretary deems appropriate. The Secretary shall provide such feedback and summaries at least once a year for the life of the demonstration.

(j) AUTHORIZATION OF APPROPRIATIONS.--To carry out the purposes of this section there are authorized to be appropriated to the Secretary and Administrator--

(1) \$4,000,000 for fiscal year 1997,

(2) \$8,000,000 for each of fiscal years 1998, 1999, 2000, and 20001, and

(3) \$4,000,000 for fiscal year 2002.

(k) DEFINITIONS.--For the purposes of this section--

(1) the term "intermediary" means an organization, partnership, or consortium of organizations that acts as a lender and/or as a technical assistance provider to individuals who wish to start or expand a microenterprise;

(2) the term "low-income individual" means an individual whose income level does not exceed 130 percent of the official poverty line as defined by the Office of Management and Budget;

(3) the term "microenterprise" generally means a business that has a net worth of less than \$15,000;

(4) the term "technical assistance" as it relates to assisting a welfare recipient or low-income individual to become self-employed includes business technical assistance, entrepreneurial training, and/or personal development services; and

(5) the term "welfare recipient" means a participant in a time-limited welfare program who is eligible for the JOBS or Work program or a person who is receiving assistance from AFDC.

# **WELFARE REFORM**

## **LEGISLATIVE SPECIFICATIONS**

### **PART I**

*- MAY 26, 1994 -*

- I. PREVENT TEEN PREGNANCY AND PROMOTE PARENTAL RESPONSIBILITY**
- II. MAKE WORK PAY**
  - **Child care**
  - **Advanced Earned Income Tax Credit**
  - **Earned Income Disregards**
- III. IMPROVING GOVERNMENT ASSISTANCE**

## PREVENT TEEN PREGNANCY AND PROMOTE PARENTAL RESPONSIBILITY

### A. NATIONAL TEEN PREGNANCY PREVENTION INITIATIVE

#### 1. Teen Pregnancy Prevention Mobilization Grants and Establishment of a National Clearinghouse on Teen Pregnancy

##### Current Law

*There are numerous Federal programs that address the issue of teen pregnancy prevention, including repeat pregnancies. Some focus specifically on teen pregnancy, but given that the multiple problems adolescents face are often interrelated, the specific problems that other programs emphasize (e.g., substance abuse, school drop-out) are also related to adolescent pregnancy prevention. Current federal efforts include HHS's family planning grants, maternal and child health programs, adolescent health programs, runaway and homeless youth programs, and alcohol and substance abuse prevention programs. Department of Education efforts include drug-free schools and communities programs, and postsecondary education outreach and student support services programs; and the Department of Labor efforts include New Chance, Youth Fair Chance, JTPA programs, and the Young Unwed Fathers Project. There are also programs in the Departments of Housing and Urban Development, Agriculture, Justice, Interior and Defense.*

##### Vision

*We must address the issue of raising births to unmarried teens. There will be a national campaign to help reduce the number of unmarried teenagers who become pregnant and parents. This campaign will also take into account the myriad of risky behaviors that can be related to teenage pregnancy. It will also strive to develop, enhance and promote youth competence; and connection to families, communities, and society.*

*The rise in births to unmarried teens over the past generation has raised the issue of teen pregnancy to national significance. The number of births to unwed teen mothers increased from 92,000 in 1960 to 368,000 in 1991. Cases headed by unwed mothers (teen and older) accounted for about four-fifths of the growth of 1.1 million in the welfare rolls over the past ten years, from 3.86 million families in 1983 to 4.97 families in 1993.*

*Adolescents who bring children into the world face a very difficult time getting themselves out of poverty, while young people who graduate from high school and defer childbearing until they are mature, married and able to support their offspring are far more likely to get ahead. Both parents bear responsibility for providing emotional and material support. The overwhelming majority of teenagers who bring children into the world are not yet equipped to handle this fundamental obligation. They are often not equipped to handle peer pressures and the risk of other activities leading to negative consequences, such as substance abuse, delinquency and violence.*

*The non-legislative aspects of this campaign are a national mobilization that pulls together business, national and community voluntary organizations, religious institutions, schools, and the media behind a shared and urgent challenge directed by the President; the announcement of national goals to define the mission and to guide the work of the national campaign; and the establishment of a privately funded non-profit, non-partisan entity committed to the goals and mission of the national campaign. These are the essential building-blocks of a comprehensive campaign for youth balancing opportunity*

*and responsibility across the full range of Administration youth initiatives, including Goals 2000, School-to-Work, National Service, the preventive health provisions under the Health Security Act, the after-school and jobs programs included in the prevention package in the Crime Bill, as well as the prevention strategies proposed below as part of welfare reform.*

*There are two legislative aspects of this initiative. The first, addressed below, is a Teen Pregnancy Prevention Mobilization Grant Program where about 1,000 schools and community-based programs would be provided flexible grants, averaging \$100,000 each, can implement teen pregnancy prevention strategies with records of promising results. Funding would be targeted to schools with the highest concentration of middle and high school age youth at-risk. The goal would be to work with youth as early as age 10 and establish continuous contact and involvement through graduation from high school. To ensure quality and establish a visible and effective presence, these programs will be supervised by professional staff and, where feasible, be supported by a team of national service participants provided by the Corporation for National and Community Service. The second, described in number 2 below, is a comprehensive services demonstration approach to enhance our learning from prevention approaches.*

### Specifications

- (a) A separate authority under the Title XX of the Social Security Act would be established for grants to promote the development, operation, expansion, and improvement of school-based and -linked adolescent pregnancy prevention programs in areas where there are high poverty rates or high rates of unmarried adolescent births.
- (b) The approved applicant shall be entitled to payment of at least \$50,000 and not more than \$400,000 each fiscal year for five years. The grant amount will be based on an assessment of the scope and quality of the proposed program and the number of children to be served by the program. The grant must be expended in that fiscal year it is awarded or the succeeding fiscal year. At least a 20 percent non-Federal, cash or in-kind match, is required. Priority will be given to those with a higher match or an increasing ratio of non-Federal resources over the length of the grant.
- (c) The grants will be jointly awarded by HHS, Education, and the Corporation for National and Community Service, in consultation with other Federal departments and agencies. The administration of the program could be delegated to another Federal entity, such as the proposed Ounce of Prevention Council.
- (d) Eligible grantees are a partnership that includes a local education agency, acting on behalf of one or more schools, and one or more community-based organizations, institutions of higher education, or public or private for-profit or nonprofit agencies or organizations. Existing successful programs—including those now operated by national voluntary organizations—would be encouraged to apply for funds to expand and upgrade their services. Grantees would have to be located in a school attendance area where either (1) at least 75 percent of the children are from low-income families as defined under part A of title I of the Elementary and Secondary Education Act of 1965, (2) a significant number of children receiving AFDC, or (3) there is a high unmarried adolescent birth rate. Geographic distribution, including urban and rural distribution, would be taken into account in selection of grantees.
- (e) Grantees would, based on local needs, design and implement promising programs to prevent teen pregnancy through a variety of approaches. Grantees would be given a great deal of flexibility in designing their program. However, core components at each site must include:

- Curriculum and counseling designed to reach young people that address the full range of consequences of premature sexual behavior and teen pregnancy. Existing models of best practices suggest that these educational activities should focus on developing the psychology and character required for responsible behavior as well as on expanding cognitive knowledge.
- Activities designed to develop sustained relationships with caring adults. Group coaching, individual mentoring, and a range of activities after-school, on weekends, and in the summer could be included. Such activities could also include community service by the youth themselves.

To ensure quality, programs would be coordinated by one or more professional staff. The programs, where feasible, would also utilize national service participants to engage students, parents, families, and the community in organized efforts to reduce risk-taking behaviors that may lead to adolescent pregnancy, including the delivery of services and in the coordination of during- or after-school activities. Grantees will be asked to describe the role that any National Service participants will play in the program, consistent with the National and Community Service Act of 1990.

Grantees are allowed to expand on these core components, including conducting activities as part of another youth development program.

- (f) Grantees would be asked to submit an application. The primary aspect of the application would be a plan which describes (a) the measurable goals the applicant wants to achieve and how they intend to measure progress in achieving the goals; (b) curriculum and counseling and sustained adult relationships components of the program, as well as any additional components, and how they intend to implement them; (c) how national service participants will be an integral part of the program, where feasible; and (d) how local needs will be addressed.

They would also be asked to provide other assurances, including--

- How the services provided are based on research on effective approaches to reducing teen pregnancy. Other risk-taking behaviors correlated with teen pregnancy should be included.
- How both male and female teens and, where possible, out-of-school teens will be served.
- How each program would work with middle and/or high school age youth (ages 10 through 19) to establish continuous contact and involvement through graduation from high school.
- How school staff, parents, community organizations, and the teens to be served have been and will be included in the development of the application as well as the planning and implementation of the program.
- Evidence of ongoing commitment with other community institutions, such as churches, youth groups, universities, businesses, or other community, civic, and fraternal organizations.

- Coordination of their program with other Federal or federally assisted programs, state and local programs, and private activities, and how the applicants resources and services are linked and coordinated.
  - How the program plans to continue operation following completion of the grant period.
  - How funds will not supplant Federal, State, or local funds.
- (g) A grantee would be given priority if their non-Federal resources are significantly in excess of the 20 percent required or there is an increasing ratio of non-Federal resources over the length of the grant, and if they participate in other Federal and non-Federal programs.
- (h) The Secretary may terminate a grant before the end of the 5-year period if the Secretary determines, after providing training or technical assistance, that the grantee conducting the project has failed to carry out the project as described in the approved application.
- (i) Total funding for the program is \$300 million over five years. \$20 million in FY 1995, \$40 million in FY 1996, \$60 million in FY 1997, \$80 million in FY 1998 and \$100 million in FY 1999 and each subsequent fiscal year. Up to ten percent of the funding will be set-aside for the evaluation, training, and technical assistance as well as for establishment of a National Clearinghouse on Teen Pregnancy (see j. and k. below). Since this program and the Clearinghouse is authorized through Title XX of the Social Security Act, any funds not expended in a fiscal year shall be redirected to the Title XX Social Services Block Grant Program.
- (j) A rigorous Federal evaluation would be conducted of some sites. Grantees would be asked to provide information requested for the evaluation. Training and technical assistance would also be provided to the grantees.
- (k) A National Clearinghouse on Teen Pregnancy Prevention would be established to provide communities and schools with teen pregnancy prevention programs with curricula, models, materials, training and technical assistance. This could be an existing clearinghouse. It will establish an information exchange and network on promising models and rigorous evaluations.

The Clearinghouse would be a national center for the collection and dissemination of programmatic information and technical assistance that relates to teen pregnancy prevention programs. It will also look at the state of teen pregnancy prevention program development, including information on the most effective models. It would develop and sponsor training institutes and curricula for teen pregnancy prevention program staff, and develop networks of for sharing and disseminating information. The Clearinghouse could also conduct evaluations of teen pregnancy prevention programs (not limited to the grants provided in this bill).

2. Learning from Prevention Approaches through Comprehensive Services Demonstrations to Prevent Teen Pregnancy in High Risk Communities

Current Law

*There are demonstration authorities that exist to serve youth in particular areas, but most are not as comprehensive as the demonstrations described below in the scope of services for all youth and are not a saturation model.*

Vision

*Early unwed child-bearing and other problem behaviors are interrelated and strongly influenced by the general life-experiences associated with poverty. Changing the circumstances in which people live and consequently how they view themselves is needed to change the decisions young people make in regard to their lives.*

*For any effort which hopes to have results that are large enough to be meaningful, attention must be made to circumstances in which youth grow up. It should address a wide spectrum of areas associated with youth living in a healthy community: economic opportunity, safety, health, and education.*

*Particular emphasis must be paid to the prevention of adolescent pregnancy before marriage. Programs that combine these elements have shown the most promise, especially for adolescents who are motivated to avoid pregnancy until they are married. However, for those populations where adolescent pregnancy is a symptom of deeper problems, sex education and contraceptive services alone will be inadequate; they must be part of a much wider spectrum of services.*

*Interventions need to enhance education, link education to health and other services, help stabilize communities and families in trouble. This would provide a sense of rationality and order in which youth can develop, make decisions, place trust in individuals and institutions serving them, and have a reasonable expectation of a long, safe, and productive life.*

*Comprehensive Demonstration Grants for Youth in High-Risk Communities of sufficient size or "critical mass" to significantly improve the day to day experiences, decisions and behaviors of youth are proposed. Services would be non-categorical, integrated and delivered with a personal dimension. They would follow a "youth development" model and would seek to assist communities as well as directly support youth and families. These demonstrations would be coordinated with other Administration activities, such as the prevention components of the Crime bill, and would be part of an overall community strategy for youth.*

Specifications

- (a) A separate authority under the Title XX of the Social Security Act would be established whereby a designated number of neighborhood sites chosen by the Secretary, in consultation with the Secretaries of Education, HUD, Justice, and Labor, would be entitled to a demonstration grant to educate and support school-age youth (youth ages 10 through 21) in high risk situations and their family members through comprehensive social and health services, with an emphasis on pregnancy prevention.
- (b) Funding and services provided under this program do not have to achieve this goal of comprehensiveness in and of themselves. Rather, this funding can be used to provide "glue money," fill gaps in services, ensure coordination of services, and other similar activities which will help achieve the overall goal of comprehensive integrated services to youth.
- (c) Up to seven community sites would be entitled to \$90 million over 5 years (up to \$3.6 million per site). Grantees would be required to provide a 10 percent, in cash or in-kind, match of the Federal funding. Priority would be given to those with a higher match or an increasing ratio of non-Federal resources over the length of the grant. This could include in-kind contributions. Since this program is authorized through Title XX of the Social Security Act,

any funds not expended in a fiscal year shall be redirected to the Title XX Social Services Block Grant Program.

- (d) The activities authorized under the demonstration would be focused on four broad areas; grantees would be given great flexibility to design programs within these areas:
- (i) **Health education and access designed to promote physical and mental well-being and personal responsibility.** These include school health services, health education, family planning services, substance abuse prevention services and referral for treatment, life skills training, and decision-making skills training.
  - (ii) **Educational and employability development services designed to promote educational advancement that lead to a high school diploma or its equivalent and opportunities for high skill, high wage job attainment and productive employment, to establish a lifelong commitment to learning and achievement, and to increase self-confidence.** Activities could include, but are not limited to, academic tutoring, literacy training, drop-out prevention programs, career and college counseling, mentoring programs, job skills training, apprenticeships, and part-time paid work opportunities.
  - (iii) **Social support services designed to provide youth with a stable environment, continuous contact with adults, and encouragement to participate in safe and productive activities.** Services could include, but are not limited to, cultural, recreational and sports activities, leadership development, peer counseling and crisis intervention, mentoring programs, parenting skills training, and family counseling.
  - (iv) **Community activities designed to improve community stability, and to encourage youth to participate in community service and establish a stake in the community.** Activities could include, but are not limited to, community policing, community service programs, community activities in partnership with less distressed communities, local media campaigns, and establishment of community advisory councils with youth representation.
- (e) Sites would have to meet the following characteristics, and any others determined by the Secretary of Health and Human Services, in consultation with the Secretaries of Education, HUD, Justice, and Labor.
- (i) **Geographic -- Communities must identify the neighborhood or neighborhoods they will target.** Smaller, more focused boundaries than those required in Empowerment Zones or Youth Fair Chance will be used in order to develop a "critical mass" of services to meet the above goals. Each neighborhood must have an identifiable boundary and must be considered a neighborhood by its residents.
  - (ii) **Population -- Each community or group of communities have populations of approximately 20,000 to 35,000 people.**
  - (iii) **Poverty -- The entire area must have a poverty rate of at least 20%, with 50% of the area having a rate of at least 35% and 90% of the area having a rate of at least 25%.**

- (f) Local governments (or units of local governments) and local public and private non-profit organizations could apply. Applicants would be required to supply evidence of comprehensive commitment to the project and collaboration between the community and the city and State (such as local school to work partnerships). The applicant must involve multiple elements (e.g., government, schools, churches, businesses) of the community and the State in the planning and implementation of the demonstration program. Applicants must demonstrate (1) ability to manage this major effort, (2) resources for obtaining data and maintaining accurate records, (3) how they will coordinate with other with other programs serving the same population, and (4) assurances that the funding provided through this program will not be used to supplant Federal funds for services and activities which promote the purposes of this program.
- (g) Applicants must define the goals intended to be accomplished under the project. They must also describe the methods to be used in measuring progress toward accomplishment of the goals and outcomes to be measured. Outcomes to be measured would include, but are not limited to, unmarried birth rates, high school graduation rates, college attendance rates, rates of alcohol and other drug use and violence reduction.
- (h) The Department will support rigorous evaluations of all demonstrations. The Federal government will also provide technical assistance to applicants throughout the life of the demonstration. These activities will be coordinated with the National Clearinghouse on Teen Pregnancy Prevention. \$10 million would be provided for these activities.
- (i) The Secretary may terminate a grant before the end of the 5-year period if the Secretary determines that the grantee conducting the project has failed to carry out the project as described in the approved application.

## B. RESPONSIBILITIES OF SCHOOL-AGE PARENTS RECEIVING CASH ASSISTANCE

### 1. Minor Mothers Live at Home

#### Current Law

*Under Section 402(a)(43) of the Social Security Act, States have the option of requiring minors (those under the age of 18) to reside in their parents' household, or a legal guardian or other adult relative, or reside in a foster home, maternity home or other adult supervised supportive living arrangement (with certain exceptions). Delaware, Maine, Michigan, Virgin Islands, and Puerto Rico have included this in their State plan.*

#### Vision

*By definition, minor mothers are children. Generally, we believe that children should be subject to adult supervision. This proposal would require minor mothers to live in an environment where they can receive the support and guidance they need. At the same time, the circumstances of each individual minor will be taken into account in making decisions about living arrangements.*

#### Specifications

- (a) All States would require minor mothers to reside in their parents' household, with a legal guardian or other adult relative, with certain exceptions as described below. This is the same as current law, except that now the provision would be a requirement.

- (b) As in current law, when a minor mother lives with her parent(s), the parent(s)' income is taken into account in determining the benefit. If the minor mother lives with another responsible adult, the responsible adult's income is not taken into account. Child support would be sought in all cases.
- (c) A minor parent is an individual who (i) is under the age of 18, (ii) has never been married, and (iii) is either the natural parent of a dependent child living in the same household or eligible for assistance paid under the State plan to a pregnant woman. This is the same definition as current law.
- (d) The following exceptions (now in current law) to living with a parent or legal guardian will be maintained:
  - (i) individual has no parent or legal guardian of his or her own who is living and whose whereabouts are known;
  - (ii) no living parent or legal guardian of such individual allows the individual to live in the home of such parent or guardian;
  - (iii) the State agency determines that the physical or emotional health or safety of the individual or dependent child would be jeopardized if the individual and dependent child lived in the same residence with the individual's own parent or legal guardian;
  - (iv) individual lived apart from his or her own parent or legal guardian for a period of at least one year before either the birth of any dependent child or the individual having made application for aid to families with dependent children under the plan; or
  - (v) the State agency otherwise determines (in accordance with regulations issued by the Secretary) that there is good cause for waiving the requirement. (In those States that have this policy, the following are examples of what they determine to be good cause exceptions: the home is the scene of illegal activity; returning home would result in overcrowding, violation of the terms of the lease, or violation of local health and safety standards; the minor parent is actively participating in a substance abuse program which would no longer be available if she returned home; no parent or legal guardian lives in the State.)
- (e) Current law is maintained regarding the determination of a minor mother's residency status must be made within the 45 days that all eligibility determinations are made.
- (f) If the State determines the minor should not live with a parent, legal guardian or other adult relative, the minor must be assisted in obtaining an appropriate supportive alternative to living independently (or the State may determine that the individual's current living arrangement is appropriate). (The types of living arrangements that States now use or are considering include living with an adult relative, a licensed foster home, in a group home for pregnant teens or teen parents, and in an approved congregate housing facility.) If no appropriate setting is found the State must grant eligibility, but must utilize case managers to provide support for the minor.

- (g) The State would use the case management for teen parent provision (see #2 below) to make the determinations required under this provision. As described in the next proposal, these case managers would be trained appropriately and have reasonable caseloads. Determinations would be made after a full assessment of the situation, including taking into account the needs and concerns expressed by the minor.

## 2. Limiting AFDC Benefits To Additional Children Conceived While on AFDC

### Current Law

*Currently, families on welfare receive additional support because their AFDC benefits increase automatically to include the needs of an additional child.*

### Vision

*The welfare system should reinforce parental responsibility by keeping AFDC benefits constant when a child is conceived while the parent is on welfare. The message of responsibility would be further strengthened by providing the family an opportunity to earn back what they lost.*

### Specifications

- (a) Allow States the option of keeping AFDC benefits constant when a child is conceived while the parent is on welfare. In order to exercise this option, the State must demonstrate that family planning services under 402(a)(15) are available and provided to all recipients.
- (b) Under this option, if a parent has an additional child, the State must disregard an amount of income equal to any increase in aid that would have been paid as a result of the additional child. Types of income to be disregarded include:
- (i) child support;
  - (ii) earned income; or
  - (iii) any other source that the State develops and is approved by the Secretary.
- (c) Provision will not be applied in the case of rape or in any other cases that the State agency finds would violate the standards of fairness and good conscience.

## 3. Case Management for All Custodial Teen Parents

### Current Law

*Section 482(b)(3) of the Social Security Act allows States to provide case management to all those participating in the JOBS program.*

### Vision

*Frequently, it is multiple problems that lead youth to the welfare system. Their complex needs often stand in the way of their meeting educational requirements and other responsibilities. Removing these barriers to self-sufficiency can involve the confusing and difficult process of accessing multiple service systems. This proposal would provide every teen with a case manager who would help them navigate these systems and hold them accountable for their responsibilities and requirements.*

Specifications

- (a) Require States to provide case management services to all custodial teen parents receiving AFDC under age 20. States still have the option to serve all older teens.
- (b) Case management services to teen parents will include, but is not limited to:
  - (i) assisting recipients in gaining access to services, including, at a minimum, family planning, parenting education, and educational or vocational training services;
  - (ii) determining the best living situation for a minor parent taking into account the needs and concerns expressed by the minor (see #1 above);
  - (iii) monitoring and enforcing program participation requirements (including sanctions and incentives where appropriate); and
  - (iv) providing ongoing general guidance, encouragement and support.
  - (v) States must in their plans describe how they will meet these requirements.
- (c) Case managers must receive adequate training in the social service and youth development field, and States should take into account recommendations by appropriate professional organizations to carry this out. Also, the ratio of case managers to clients must be sufficiently small to adequately serve and protect teen parents and their children.

4. Teen Parent Education and Parenting Activities State OptionCurrent Law

*Under Section 402(a)(19) of the Social Security Act, teen custodial parents are required to participate in the JOBS program unless they are under 16 years of age, attending school full-time, or are in the last seven months of pregnancy. Participation in the JOBS program involves an assessment of the individual, and an agreement specifying what support services the State will provide and what obligations the recipient has. For those who have not obtained a high school diploma or a GED, attendance at school can serve as their JOBS assignment. Participation in the JOBS program is contingent on the existence of such a program in the geographic vicinity of the recipients' residence.*

*In addition, under a Section 1115 waiver, States can implement programs which utilize incentives or sanctions to encourage or require teen parents on AFDC to continue their education. Two examples of a State having done or planning to do this are the Learning, Earning, and Parenting Program (LEAP) in Ohio and Cal Learn in California, which is in the process of being implemented. LEAP and Cal Learn are mandatory for all pregnant and custodial teen parents who are receiving AFDC and who do not have a high school diploma or GED. Under both LEAP and Cal Learn program rules, all eligible teens are required to enroll (or remain enrolled) in and regularly attend a school or education program leading to a high school diploma or GED. These two initiatives apply only to teens who are case heads. Other States have obtained waivers to implement programs using sanctions to influence dependents to continue their education. This may become relevant if minor mothers are not permitted to be caseheads.*

## Vision

*Teenage mothers face substantial obstacles to achieving self-sufficiency. Eighty percent of teen mothers drop out of high school and only 56 percent ever graduate. Their earning abilities are limited by lack of education and job skills. Teen parents are often not well prepared in the area of parenting. This proposal provide States with a mechanism to utilize creative approaches for encouraging and supporting youth in both their educational and parenting endeavors.*

## Specifications

- (a) Provide States the option to use monetary incentives (which must be combined with sanctions) as inducement for pregnant teens and teen custodial parents who are receiving AFDC and who do not have a high school diploma or GED to enroll (or remain enrolled) in and regularly attend a school or education program leading to a high school diploma or GED, or a program leading to a recognized degree or skills certificate if the State determines this is most appropriate for a recipient. States may also choose to provide incentives for participation in parenting education activities. This option will operate as part of the new JOBS program, and the rules pertaining to JOBS will apply unless it is specifically stated otherwise.

- (b) Each State plan must clearly define the following –

- **Incentives.** States must define by how much benefits will be increased and what kinds of achievements will be rewarded.

Examples of incentives chosen by Ohio and California are as follows:

In Ohio's LEAP, teens who provide evidence of school enrollment receive a bonus payment of \$62. They then receive an additional \$62 in their welfare check for each month in which they meet the program's attendance requirements. For teens in a regular high school, this means being absent no more than four times in the month, with two or fewer unexcused absences. Different attendance standards apply to part-time programs, such as Adult Basic Education (ABE) programs providing GED preparation assistance, but the same financial incentives apply.

Participants of Cal Learn will be required to present their report cards four times a year. The grant will be increased by \$100 for the month after the Cal Learn participant receives a report card with a "C" average or better. For graduating high school (or its equivalent), these teens will have their grants increased on a one time basis by \$500.

- **Sanctions.** Sanctions under the revised JOBS program would apply unless the State proposes alternative sanctions, to be approved by the Secretary, which the State believes better achieves their objectives.

Examples of sanctions chosen by Ohio and California are as follows:

In LEAP, teens who do not attend an initial assessment interview (which commences participation in LEAP) or fail to enroll in school have \$62 deducted from their grant (i.e., the teens are "sanctioned") each month until they comply with program rules. Similarly, enrolled teens are sanctioned by \$62 for each month that they exceed the allowed number of unexcused absences. Teens who exceed the allowed number of total absences, but do not exceed the allowed number of unexcused absences receive neither a bonus nor a sanction.

In the Cal Learn program, teens who do not receive at least a "D" average or who do not submit his/her report card will have the assistance unit grant reduced over a two month period by the lesser of \$50 or the amount of the grant. This will result in a sanction of not more than \$100. Included in the sanctions will be teens that do not present their report cards because they have dropped out of school or were expelled.

- **Coordination.** A case manager (as described in A.2) will assess each recipient's needs and arrange for appropriate services. States must describe the mechanism case managers and other service providers will use to coordinate with schools.
- **Eligibility.** States must include custodial teen parents under 20 years of age and pregnant women under the age of 20. States may choose to include custodial pregnant teens and teen parents up to their 21st birthday.
- **Exemptions.** Exemptions from participation will be based on the same new guidelines governing participation in JOBS Prep, JOBS and WORK, with two exceptions. First, teens will only be able to defer participation for 3 months after giving birth. Also, a disability will not allow a recipient to defer participation in school, as schools are required to provide students with disabilities appropriate services. (See JOBS and WORK section of proposal for more specific details.)
- **State-wideness.** States can limit the geographic scope of this option.
- **Information and Evaluation.** States would be required to provide information at the Secretary's request and to cooperate in any evaluation.

## MAKE WORK PAY

### Background and Vision

A crucial component of welfare reform that promotes work and independence is making work pay. In 1992, 30 percent of female heads of families with children worked but the family remained poor. Even full-time work can leave a family poor. Almost 11 percent of these female heads who worked full-year/full-time were poor, 15 percent if they had children under six years of age. Simultaneously, the welfare system sets up a devastating array of barriers for people who receive assistance but want to work. It penalizes those who work by taking away benefits dollar for dollar; it imposes arduous reporting requirements for those with earnings but still eligible to receive assistance; and it prevents saving for the future with a meager limit on assets. Moreover, working poor families often lack adequate health protection and face sizeable child care costs. Too often, parents may choose welfare instead of work in order to ensure that their children have health insurance and receive child care. If our goals are to encourage work and independence, to help families who are playing by the rules, and to reduce both poverty and welfare use, then work must pay better than welfare.

Working family tax credits are a major component of making work pay. Last summer's expansion of the Earned Income Tax Credit (EITC) was a significant step toward making it possible for low-wage workers to support themselves and their families above poverty. When fully implemented, it will have the effect of making a \$4.25 per hour job pay nearly \$6.00 per hour for a parent with two or more children. Those families who are eligible for the maximum credit in 1996 obtain, in effect, a raise worth \$1.62 per hour, assuming full-year/full-time work. Full utilization and periodic distribution will maximize the effect of this pay raise for the working poor.

Another essential component for making work pay is affordable, accessible child care. In order for families, especially single-parent families, to be able to work or prepare themselves for work, they need dependable care for their children. In addition to ensuring child care for participants in the transitional assistance program and for those who transition off welfare, child care subsidies will be made available to low-income working families who have never been on welfare.

Another critical step toward making work pay is ensuring that all Americans have health insurance coverage. Many recipients are trapped on welfare by their inability to find or keep jobs with health benefits that provide the security they need. And too often, poor, non-working families on welfare have better coverage than poor, working families. The President's health care reform plan will provide universal health care coverage, ensuring that no one will have to choose welfare instead of work to ensure that their children have health insurance. The EITC expansion, access to child care, and health care reform will support workers as they leave welfare to maintain their independence and self-sufficiency.

All regulatory provisions specified in this section shall be published within 1 year of enactment of this act, unless specified as otherwise.

## A. CHILD CARE

### Current Law and General Direction of Proposal:

*The Federal Government currently subsidizes child care for low-income families through a number of different programs. The programs have different eligibility rules and regulations, creating an extremely complicated system that is hard for both providers and recipients to navigate. The major existing programs include an entitlement to child care for AFDC recipients (title IV-A); transitional child care (TCC) (also an entitlement) for up to a year for people who have left welfare for work; a capped entitlement (\$300 million) for those the State determines to be at-risk of AFDC receipt (At-Risk); and the Child Care and Development Block Grant (CCDBG). There is also a disregard for child care costs available to working AFDC recipients. While these multiple programs provide valuable support for child care, legislative changes are needed to strengthen the welfare reform plan.*

*We are at this time making changes only in the IV-A programs, which will remain as separate authorities. Any changes in the CCDBG will be made during its reauthorization in 1995.*

### Vision:

*Child care is critical to the success of welfare reform. It is essential to provide child care support for parents receiving assistance who will be required to participate in education, training, and employment. In addition, child care support for the working poor is also essential to "making work pay" and to enable parents to remain in the workforce. Our goals are to increase child care funding so that families have the access to the child care that they need, to simplify the administration of Federal child care programs to support the development of State child care systems and to reduce the likelihood that parents and children will have to change providers as they move from funding stream to funding stream, and to assure that children are cared for in healthy and safe environments.*

### Rationale:

*We are proposing to increase significantly available child care support by entitling to funding JOBS Prep and WORK program participants, as well as those in JOBS and eligible for Transitional Child Care and by increasing the funding for child care for working poor families through the At-Risk Child Care Program. To assure access to a variety of forms of child care, we would prohibit States from lowering their State-wide limits and mandate that States supplement the disregard or provide a second, direct payment option to all parents. To improve consistency, we propose to have IV-A child care programs follow the CCDBG requirements and allow States to place all Federal child care programs in one agency. Finally, to increase supply and improve quality in order to ensure that children are in healthy and safe environments, we propose to create a set-aside in the IV-A program, to make licensing and monitoring of IV-A child care programs allowable for reimbursement as an administrative cost, to add a requirement that States must assure that children do not have access to toxic substances and weapons, and to require that all children must be immunized to meet the Public Health Service immunization standards.*

*We have selected the strategy of using the CCDBG standards and adding two new standards because we believe this truly represents the minimal requirements that can assure that children are protected. Many States obviously agree since they are already using the same standards for IV-A child care and CCDBG child care according to their State plans. In all cases except immunization, States will continue to establish their own standards; in the case of immunization, we do not believe requirements should vary from State to State. Using the CCDBG standards for IV-A child care also strengthens the parental choice requirements for those programs; we will assure the parental choice of providers.*

*provide parents information on options for care and payment of child care, and establish a system for parental complaints.*

Specifications:

1. Expansion of Funds to the Working Poor

- (a) Change the State match for the At-Risk Child Care Program, Section 402(i) to that consistent with the new, enhanced match in other IV-A programs. Change the amount specified for the program (to be specified)—Section 403(n)(2)(B). Restrict eligibility to families not eligible for other IV-A child care programs. Unused At-Risk funds will be reallocated to States that have exceeded the required State match.

2. Program Simplification/Consistency Issues

- (a) Have the IV-A child care funds flow to the IV-A agency but give the States the explicit option to contract to the CCDBG agency. States would retain the flexibility to have more than one agency involved.
- (b) The requirements for coordination, public involvement, and consultation in relationship to development of the IV-A child care plan will follow the CCDBG statute.
- (c) IV-A child care requirements will be made consistent with CCDBG requirements in the following areas:

- unlimited parental access
- parental complaints
- parental choice
- consumer education
- establishment of health and safety requirements
- compliance with State and local health and safety requirements
- reduction in standards

Added to the health and safety standards section are:

- a requirement that the State must have requirements that all children funded under these authorities are immunized at levels specified by PHS. States will be given the flexibility to exclude particular immunizations if they submit an acceptable justification to the Secretary.
  - a requirement that the State must have a requirement to assure that no child has access to toxic and illegal substances or weapons in the child care setting.
- (d) A requirement that the State will have to establish and periodically revise, by rule, a sliding fee scales that provide cost sharing by the families that receive Federal assistance for child care services. The fee scales will be the same for all programs (that used for CCDBG).
- (e) There will be one requirement for State reporting to cover all programs, with core data elements to be defined by the Secretary.

**3. Continuity of Care**

- (a) The States will be given the option under the IV-A programs to extend hours and weeks of care when reasonable to assure continuity of care for children and required participation of their parents in JOBS, WORK, and employment.

**4. Information to Parents**

- (a) States must provide child care information to parents (use CCDBG language, adding "(including options for care and payment).")

**5. Supply and Quality Issues**

- (a) Create a 10% set aside in the At-Risk program for supply building and quality improvements using language in CCDBG Section 658 (G) as allowable activities and adding as an allowable activity the expansion of the supply of care for infants and toddlers in low-income communities (as defined by the States).
- (b) Establish explicitly that licensing and monitoring of IV-A funded child care providers is an allowable administrative cost, limited by a formula established by the Secretary.

**6. Payment**

- (a) Prohibit States from lowering their statewide limits below those in effect on January 1, 1994.
- (b) Retain the disregard, but mandate that States must offer working AFDC recipients the same level and forms of child care assistance as families in JOBS, TCC, and At-Risk Child Care. To accomplish this, States may either offer families the choice of the disregard or a direct payment for care or they may instead offer them a supplement to the disregard.

**7. Clarification of the Guarantee**

Child care is guaranteed for volunteers whose activities are approved as part of their employability plan under JOBS regardless of the availability of JOBS funding for those activities.

## B. IMPROVING THE EITC

### 1. Permitting Publicly Administered Advanced EITC Payment Systems

#### Current Law

*The earned income tax credit (EITC) is a refundable tax credit available to a low-income filer who has earned income and whose adjusted gross income is below specified thresholds. Low income workers can claim the EITC when filing their tax returns at the end of the year. In addition, workers with children have the choice of obtaining a portion of the credit in advance through their employers, and claiming the balance of the credit upon filing their income tax returns. The amount of the advanced payment is calculated on the basis that taxpayers have only one qualifying child. The annual advanced EITC payment cannot exceed 60 percent of the maximum full-year EITC for a family with one child. In 1994, the maximum advance payment would be \$1,223 in 1994, relative to a maximum annual EITC of \$2,038 for a family with one child for a family with one child and \$2,528 for a family with two or more children.*

*An employee choosing to receive a portion of the EITC in advance does so by filing a form W-5 with his or her employer. The employer is not required to verify employee's eligibility for the credit. Employers may be penalized for failing to comply with an employee's request for an advanced payment. The employer calculates the advanced EITC payment to which an employee is entitled based on the employee's wages and filing status and adds the appropriate amount to the employee's paycheck. The employer reduces its payment of employment and income taxes to the IRS by the aggregate amount of advanced EITC payments made during the period and reports this amount to the IRS on form 941.*

*At the end of the year, the employer notifies both the IRS and the employee of the actual amounts of advanced credits paid to the employee by filling in a box on the form W-2. When filing their income tax return at the end of the year, an employee is required to report advance payments, if any, of the EITC.*

#### Vision

*The proposal would promote use of advance payment option of the Earned Income Tax Credit (AEITC) by shifting the outreach and administrative burden from employers to selected public agencies in those states which choose to exercise this option. For example, a States might choose to administer the AEITC through Food Stamp offices. States are not permitted to do this under current statute.*

#### Rationale

*Few programs are as effective in reaching the eligible population as the EITC. Despite the successes of the current program, the delivery of the EITC could be improved, particularly by enhancing the probability that the EITC will be claimed in advance throughout the year rather than as a year-end lump sum payment. In recent years, fewer than 1 percent of EITC claimants have received the credit through advance payments in their paychecks. The reasons for the low utilization rate are not fully known, though a recent GAO study found that many low-income taxpayers were unaware they could claim the credit in advance.*

*There may be other barriers to participation in the advance payment option. The GAO study also found that once informed, many workers stated that they would prefer to receive the EITC in a lump-sum payment. While some workers may simply prefer the forced savings aspect of receiving the credit in a lump sum, others may fear their employer's reaction if they ask for a government wage supplement to be added to their paycheck. Others may be fearful of owing the government a large sum of money at the end of the year because they received too large an amount in advance.*

*It is believed that welfare recipients, in particular, could benefit from receiving the credit at more regular intervals throughout the year. By receiving the credit as they earn wages, workers would observe the direct link between work effort and the EITC. Public agencies that deal directly with welfare recipients are uniquely advantaged to ensure that the AEITC option is used frequently and appropriately. They could explain to recipients who are about to transition from welfare to work how the AEITC will increase their income stream, making work a more rational option.*

*Allowing states the option to provide advance payments of the EITC through public agencies (e.g., the offices which also provide food stamp benefits) could dramatically increase use of the AEITC among the working AFDC and ex-AFDC populations. A State could choose to target information about the EITC to welfare recipients or other individuals likely to become welfare recipients but who are currently outside the workforce. Individuals could have the a choice of receiving the credit from a neutral third-party, without fear of notifying their employers of their eligibility for the EITC. Moreover, they could receive assistance in determining appropriate amount of the EITC to claim in advance. States would also have the resources to verify eligibility for the credit better than employers, reducing the risk of erroneous payments being made to ineligible persons. This option would also allow for an evaluation of alternative delivery systems.*

#### Specifications

- (a) A State would have the option to propose to the Secretary of the Treasury a demonstration project pursuant to which advance payments of the EITC would be made to eligible residents through a State agency. Such agencies may include public assistance offices (AFDC and/or Food Stamps), Employment Service Offices, State finance and revenue agencies, and so forth. A state may choose only one agency to provide the advance credit.
- (b) Approval by the Secretary of the Treasury of a State's proposal would be required in all cases. The Secretary of the Treasury would consult with the Secretary of Health and Human Services, the Secretary of Agriculture, and other Departmental Secretaries as appropriate if the State proposal includes coordination of EITC payments and other Federal benefits.
- (c) Where appropriate, States may include in their proposals coordination of advance payments of the EITC and other federal benefits (such as food stamps) through electronic benefit technology.
- (d) State plans would be required to specify how payment of the EITC would be administered. States must include a detailed explanation of how eligibility for the credit would be determined and verified. States would also have to agree to provide recipients and the IRS with annual information reports in a timely fashion (typically by January 31 of the following year) showing the amounts of the EITC paid in advance. In addition, states would agree to provide the IRS with a listing by December 1st of the names, social security numbers, and the amounts of advance payments received through October of all persons who participated in the state program at any time during the year (through October). States which failed to meet these reporting requirements would not be allowed to continue participation in the program.

- (e) States would be allowed (but not required) to provide on an advanced basis up to 75 percent of the maximum amount of the credit for which the taxpayer is eligible.
- (f) States would reduce payments of withholding taxes (for both income and payroll taxes) from their own employees by the amount of the advance payments made during the prior quarter.
- (g) After the processing of income tax returns and matching of returns with information reports, the Secretary of the Treasury would be required to issue an annual report detailing the extent to which EITC claimants under State plans: (1) participated in the state plan; (2) filed a tax return; (3) reported accurately the amount of the advanced payments payable during the year by the state; and (4) repaid any overpayments of the advanced EITC within the proscribed time. The report would also contain an estimate of the amount of the excessive overpayments made by the state. Excessive overpayments would include advance payments not reported on the tax return and advance payments in excess of the EITC calculated on the basis of information reported to the IRS and causing taxpayers to owe outstanding amounts to the IRS.
- (h) States would be required to repay the Federal government 50 percent of excessive advance payments subsequently not recaptured by IRS made to State residents participating in the plan over a 4 percent threshold. The Secretary of the Treasury would demonstrate that due and diligent effort had been made to recapture these amounts through normal procedures. The 4 percent threshold applies to all advanced payments made by the state for a given tax year. States would become liable for the excessive amounts within two years of when the filing of a tax return was required.
- (i) The Secretary of Treasury and the Secretary of Health and Human Services would jointly ensure that technical assistance is provided to States undertaking demonstration projects aimed at increasing participation in the EITC and the EITC advanced payment programs. Sufficient training and adequate resources would be provided to both agencies pursuant to the provision of technical assistance to the States. The Secretary of HHS will see that such pilots are rigorously evaluated.
- (j) The Secretary shall enter into agreements with up to 4 States to pilot and assess the development and implement publicly administered advanced Earned Income Tax Credit initiatives.
- (k) These agreements shall provide planning and implementation grants to States selected under this provision provided:
  - (i) that the Secretary of the Treasury also reviews and approves of the proposal submitted to the Secretary of DHHS;
  - (ii) that the selected States agree to share their findings and lessons with other interested States in a manner to be described by the Secretary.
- (l) The total amount available under this provision is \$1.4 million and no individual State can receive a grant in excess of \$500,000.
- (m) Unless otherwise extended by the Secretary, these demonstration programs shall not exceed three years in duration.

## C. EARNED INCOME DISREGARDS

### Current Law

*Federal AFDC law requires that all income received by an AFDC recipient or applicant be counted against the AFDC grant except income that is explicitly excluded by definition or deduction. States are required by Federal law to disregard the following income: (1) for the first four months of earnings, working recipients are allowed a \$90 work expense disregard, another \$30 unspecified disregard, and one-third of remaining earnings are also disregarded; (2) the one-third disregard ends after four months; and (3) the unspecified \$30 disregard ends after 12 months.*

*In addition, a child care expense disregard of \$175 per child per month (\$200 if the child is under 2) is permitted to be calculated after other disregard provisions have been applied. Currently, \$50 in child-support is passed through to families with established awards. States are now required to disregard the EITC in determining eligibility for and benefits under the AFDC program.*

### Vision

*The provisions proposed under this component are designed to: (1) make the treatment of income simpler for both recipients and welfare officials to understand; (2) make work a more attractive, rational option for those who would continue to receive assistance; (3) remove the time sensitivity of current rules (i.e., eliminate provisions which change the rules governing the treatment of income depending on how long the person has worked); and (4) improve the economic well-being of those who need to combine work and welfare.*

### Specifications:

- (a) Require States to disregard a minimum of \$120 in earnings, indexed for inflation in rounded increments of \$10. The effective date shall be October 1, 1996.
- (b) States will have the flexibility to establish their own disregard policies on earned income above this amount for both applicants and/or recipients and participants in the WORK program.
- (c) Additionally, via regulation, States have flexibility in establishing fill-the-gap policies (i.e., States will have the flexibility to determine which types of income should be considered in developing a fill-the-gap policy, such as child support payments, stipends, etc, in addition to earned income).
- (d) The AFDC \$50 pass-through of child support payments will also be indexed for inflation in rounded \$10 increments. States will have the flexibility to pass-through additional child support payments above this amount.

### Rationale

*The proposal allows for greater State flexibility; State can determine the appropriate income disregard and can determine which sources of income to disregard. The indexing of the minimum amount will ensure that working recipients are afforded an adequate earned disregard in the future.*

## IMPROVING GOVERNMENT ASSISTANCE

### A. RATIONALIZATION AND SIMPLIFICATION ACROSS ASSISTANCE PROGRAMS

*The rationalization and simplification of assistance programs is something of the holy grail of welfare reform—always sought, never realized. The reasons are many: different goals of different programs, varied constituencies, Departmental differences, divergent Congressional committee jurisdictions, and the inevitable creation of winners and losers from changing the status quo. Yet everyone agrees that recipients, administrators, and taxpayers are all losers from the current complexity. Below are several proposals for reform. The proposals do not make substantial changes in program structures. Rather, the proposals achieve simplification by streamlining administrative processes and by conforming program rules between the AFDC and Food Stamp programs. The proposals modify existing rules that create unnecessary complexity and confusion for program administrators and recipients.*

#### 1. FILING UNIT

*Under current law, the AFDC filing unit must consist of a needy deprived child, its natural or adoptive parent(s), and all natural and adoptive brothers and sisters (including half brothers and sisters) who are living together. The unit's income and resources are used to determine eligibility and the amount of payment. A stepparent is treated the same as a natural or adoptive parent for filing unit purposes in seven States (Nebraska, New Hampshire, Oregon, South Dakota, Utah, Vermont, and Washington). These States have laws of general applicability which hold the stepparent responsible for the children to the same extent as a natural or adoptive parent. In all other States, the stepparent's needs are not included in the unit and his/her income, after certain disregards, are considered available to the unit members.*

*If there is no parent in the home, then another non-legally responsible relative with whom the child is living may, at his/her option, join the unit and be assisted. Additionally, States may exercise the option of including other individual(s) living in the home as an essential person(s). The essential person's income and resources are used to determine eligibility and amount of payment.*

*Certain parents and siblings are excluded from the unit: illegal and sponsored aliens, recipients of SSI, foster children, and individuals ineligible due to lump sum income.*

#### 1. UP Provisions

##### Current Law

*The Social Security Act at section 407(a) and 407(b) limits AFDC eligibility for two-parent families to those where the principal wage earner is unemployed, and has worked six of the last 13 quarters. "Unemployed" is defined in regulations as working less than 100 hours in a month.*

##### Specifications

- (a) Allow States, at their option, to eliminate any of the special eligibility requirements for two-parent families (e.g., the 100-hour rule, 30 day unemployment requirement, the work history test, etc) for both applicants and/or recipients. For States that elect to maintain a 100 hour rule (or a modified hour rule), WORK program participation would not count towards this rule. The effective date shall be October 1, 1996.

- (b) Remove the sunset provision that allows for the termination of AFDC-UP in 1998 and make it a permanent program.

### Rationale

*Some of the arguments for removing the additional eligibility requirements are that eliminating them would:*

- *remove the remaining vestiges of the AFDC marriage penalty in which single-parent families have easier access to benefits than married couples;*
- *improve horizontal equity by treating disadvantaged children the same irrespective of whether they live with one or two parents;*
- *encourage work, as the current rule limiting labor market attachment would be incongruous in a new transitional welfare program that emphasizes work;*
- *eliminating these special rules would also enhance the simplicity of the system; and,*
- *finally, a number of States have sought waivers in this area.*

## 2. Essential Person Provision

### Current Law

*The Social Security Act at section 402(a)(7) and the implementing regulation at 45 CFR 233.20(a)(2)(vi) permit States, at their option, to include in the AFDC grant benefits for essential persons. Such individuals are not eligible for AFDC in their own right, but their needs are taken into account in determining the benefits payable to the AFDC family because they are considered essential to the well-being of an AFDC recipient in the family. Twenty-two States currently include the option as part of their respective State plans.*

### Specifications

- (a) Limit the kinds of individuals that a State may identify as essential to individuals providing at least one of the following benefits or services to the AFDC family:
- (1) child care which enables a caretaker relative to work part-time outside the home;
  - (2) care for an incapacitated AFDC family member in the home;
  - (3) child care that enables a caretaker relative to attend high school or GED classes on a part-time basis;
  - (4) child care that enables a caretaker relative to participate in JOBS; and
  - (5) child care that enables a caretaker relative to receive training on a part-time basis.

### Rationale

*The Social Security Amendments of 1967 provided a specific statutory base for an essential person policy. This policy has two aspects. First, States are permitted to specify those individuals who can be considered essential; second, States must permit the AFDC family to have the final decision as to whether such individuals are in fact essential. Under this policy, States are not required to identify the benefits or services that these essential persons must provide.*

In 1989, this policy became contentious. Based in part on an OIG review of certain State practices (most notably in New York), our predecessor organization, the Family Support Administration, published final regulations which limited State authority to determine categories of individuals who could be considered as essential to the family. These regulations precluded States from covering individuals who did not provide an essential benefit or service to the family. (The permissible categories are the five shown in option 2 above.) However, in 1990 the district court for the Eastern District of Pennsylvania in *Vance v. Sullivan* and the district court for the District of Maine in *McKenney v. Sullivan* held that these regulatory limitations conflict with section 402(a)(7)(A) of the Social Security Act. The courts interpreted this section as providing States with the authority to identify in their State plans the categories of individuals who may be recognized as essential persons. These judicial decisions were not appealed. Consequently, the Department revoked the 1989 regulations and reinstated the prior policy. In order to curtail or limit the use of the essential person policy, a statutory amendment to section 402(a)(7)(A) is necessary.

### 3. Stepparent Deeming

#### Current Law

Section 402(a)(31) of the Social Security Act requires that the income of an AFDC dependent child's stepparent who lives in the same home as the child is counted in the monthly determination of eligibility and the amount of assistance. The statute also requires that the following disregards will be applied in determining the amount of the stepparent's countable income:

- The first \$90 of the stepparent's gross earned income;
- An additional amount for the support of the stepparent and other individuals who live in the home, who are not in the assistance unit, and who the stepparent claims as dependents for Federal income tax purposes. This disregard must equal the State's need standard amount for a family group of the same composition as the stepparent and the other individuals not in the assistance unit;
- Alimony and child support payments to individuals not living in the household; and
- Amounts actually paid by the stepparent to individuals not living in the home but who he or she claims as dependents for Federal income tax purposes.

#### Specification

- (a) Amend the Social Security Act to give States the flexibility to increase the amount of the stepparent disregards.

#### Rationale

Allowing the disregards to be increased provides incentives for AFDC recipients to marry to improve the stability of the family, and provides an incentive for stepparents to increase their earnings.

## 2. RESOURCES

### (A) General

#### Current Law

*The Social Security Act and implementing regulations set a \$1,000 limit (or a lower limit at State option) on the equity value of resources that a family may have and be eligible for AFDC. Excluded from consideration as countable resources are the home owned and occupied by the family; an automobile with a maximum equity value of \$1,500 (or a lower limit at State option); bona fide funeral agreements with a maximum equity value of \$1,500 for each family member (or lower limit set by the State); one burial plot for each family member; and real property for a period of 6 consecutive months (or 9 consecutive months at State option) which the family is making a good faith effort to sell. Under certain conditions, States may establish rules regarding transfer of resources in order to obtain or retain eligibility.*

*The Food Stamp Act and implementing regulations set a \$2,000 limit (or \$3,000 for a household with a member age 60 or over) on the value of resources a household may have and participate in the program. The Act does not specify how the value of resources is to be determined, but provides for uniform national eligibility standards for income and resources. State agencies are prohibited from imposing any other standards of eligibility. Households in which each member receives AFDC, SSI, or general assistance from certain programs do not have to pass the food stamp resource eligibility test. Regulations exclude from resources the value of one burial plot per family member and the cash value of life insurance policies. Also excluded is real property which the household is making a good faith effort to sell at a reasonable price and which has not been sold. There is no specific exclusion for burial plans (funeral agreements). Any amount that can be withdrawn from a funeral contract without an obligation to repay is counted as a resource.*

*Food Stamp law prohibits the transfer of resources within the 3-month period prior to application. A household that knowingly transfers resources for the purposes of qualifying or attempting to qualify for food stamps shall be ineligible to participate in the program for a period of up to one year from the date of discovery of the transfer.*

#### Vision

*Both the AFDC and Food Stamps programs serve similar needy populations. Yet, because the rules for treatment of both the amounts and categories of resources are different in each program, resources that meet one program's requirement can result in ineligibility under the other. Both programs have substantially different rules for evaluating the resources of that needy group, forcing welfare administrators to apply different program rules to the same resources in the same family. The following legislative proposal would reduce the current administrative complexity and confusion for welfare administrators and recipients by providing uniform treatment of assets where appropriate.*

#### Specifications

*Require the Secretaries in both Departments to develop uniform resource exclusion policies in the following areas:*

(a) Resource Limits:

Increase the AFDC resource limit to \$2,000 (or \$3,000 for a household with a member age 60 or over) to conform to the Food Stamp resource limit.

## (b) The Secretary shall specify in regulations the valuation and method for determining valuation of an automobile.

(c) Resource Exclusions:

(i) Real Property: Propose legislation to amend the Social Security Act to exclude real property which the AFDC family is making a good faith effort to sell at a reasonable price and which has not been sold, to conform to the Food Stamp policy.

(ii) Cash Surrender Value of Life Insurance Policies: Propose legislation to amend the Social Security Act to totally exclude the cash surrender value of life insurance policies under the AFDC program to conform to the Food Stamp policy.

(iii) Transfer of Resources: Propose legislation to provide that a household that knowingly transfers resources for the purposes of qualifying or attempting to qualify for AFDC shall be ineligible for benefits for a period of up to one year from the date of discovery of the transfer. This proposal conforms to the Food Stamp policy.

Rationale

*The administrative complexity that exists in applying certain resource requirements in the AFDC and Food Stamp programs will be greatly reduced under the proposed changes. Welfare administrators will be able to apply the same rules to the same resources for the same family. These conforming changes achieve simplification by streamlining the administrative processes in both programs.*

(B) Asset Accumulation - Individual Development AccountsCurrent Law

*The Social Security Act and implementing regulations set a \$1,000 limit (or a lower limit at State option) on the equity value of resources that a family may have and be eligible for AFDC, with only limited exclusions.*

*The Food Stamp Act and implementing regulations set a \$2,000 limit (or \$3,000 for a household with a member age 60 or over) on the value of resources a household may have and participate in the Program. Section 13925 of Pub. L. 103-66 of the Omnibus Budget Reconciliation Act provides that the Secretary of Agriculture shall conduct, for a period not to exceed 4 years, projects to test allowing not more than 11,000 households nationwide to accumulate up to \$10,000 each in excluded resources. These assets are for later expenditures for a purpose directly related to improving the education, training or employability (including self-employment) of household members, for the purchase of a home for the household, for a change in the household's residence, or for making major repairs to the household's home.*

## Vision

*Welfare reform should include strategies to test the notion that one way out of welfare for some people is through empowering them to start their own businesses and encouraging them to save their earnings to build for the future. During the campaign, the President endorsed the idea of helping welfare recipients help themselves by proposing to increase the number of microenterprises and establish Individual Development Accounts (IDAs). These legislative proposals would promote self-sufficiency by encouraging recipients to accumulate savings, assets and start their own businesses.*

*An IDA is an optional earnings-bearing, tax-benefitted trust account in the name of one person. An IDA would be held in a licensed, federally-insured financial institution. Withdrawals can be made from the account only for qualified purposes, which include: first home purchase, post-secondary education (college/long-term training), or business development (microenterprises). There would be penalties for non-designated use of the account. Participant eligibility would be determined by the State agency using Federal guidelines. Monies placed into an IDA account by an AFDC and Food Stamp recipient would be disregarded for purposes of determining resource limits, up to \$10,000. All income placed into an IDA would be tax deferred. An individual would retain the IDA after leaving welfare, but would still be required to use the resources for specified purposes or would face penalties.*

*The tax laws will be amended to allow for the establishment of IDAs; DHHS and USDA regulations will set the limit at \$10,000; subsidized IDAs will be established on a demonstration basis; unsubsidized IDAs will also be permitted for qualified individuals not involved in a demonstration. Current recipients (and applicants with established IDAs) for both the AFDC and Food Stamp programs can establish IDAs and have their savings and interest excluded.*

## Specifications

### 1. National Unsubsidized IDA Program

- (a) Allow IDAs to be established by Federally insured financial institutions to be used exclusively to pay for post-secondary education or training expenses, first-home purchases, or business capitalization where there is a qualified plan.
- (b) Recipients of Food Stamps and AFDC are eligible for participation in the IDA program. Individuals otherwise eligible for the Earned Income Tax Credit shall be permitted to establish IDAs, but some restrictions apply (*specifically see provision (iii) below*).
  - (i) Annual contributions shall not exceed the lesser of \$2,000 or 100% of all income, excluding public assistance, with a total account limit of \$10,000 per family.
  - (ii) If the accounts are established while a family is on AFDC or Food Stamps, the IDA account balance will not count against a family's resource limits. Families who leave the rolls after opening an account can continue the account. If the family re-applies for AFDC or Food Stamps at a later date, their IDA savings and interest, up to \$10,000, are excluded.
  - (iii) If an IDA-eligible individual establishes an IDA while not receiving AFDC or Food Stamps (for example, upon receiving an EITC payment) and subsequently applies for assistance to either program, the amount in the IDA shall be applied against the resource limits for purposes of determining eligibility.

- (c) Funds in an IDA account are tax deferred until withdrawn.
- (d) The penalty for a withdrawal from an unsubsidized IDA for purposes other than those specified will be 10 percent of the amount withdrawn that is includable in income.

## 2. Subsidized Individual Development Account (IDA) Demonstration

- (a) Amend the tax laws to allow States, localities, and community development financial institutions to apply to receive grants to operate 5-year IDA demonstration projects. Project grants will be awarded by the Community Development Bank and Financial Institutions Fund on a competitive basis and must be renewed annually. Authorized levels are \$10 million in fiscal year 1997 and 2002 and \$20 million for fiscal years 1998 - 2001.
  - (i) \$500 in initial financial assistance will be placed into accounts established for project participants who establish IDAs so banks are willing to set up the accounts. In addition, participant contributions may be subsidized in amounts ranging from \$.50 to \$4 for each \$1 deposited, not to exceed \$2,500. Total individual IDA amounts may not exceed \$10,000.
  - (ii) Eligible participants are households with: at least one member eligible for EITC, an adjusted gross income not in excess of \$18,000, and a net worth not in excess of \$20,000.
  - (iii) Grantees will maintain a reserve fund to be spent on assisting participants in achieving self-sufficiency, administering the project, and to collect evaluation information.
  - (iv) Grantees must submit annual reports on the progress of their project.
  - (v) The Fund will contract for an independent evaluation of individual demonstration projects describing project features, assessing levels of self-sufficiency and benefit reduction achieved, levels of assets accumulated, and their effects.
  - (vi) The penalty for a non-designated withdrawal from a subsidized IDA will be the total amount of the subsidy and 10 percent of the individual's contribution of the amount withdrawn.

## 3. Self-Employment/Microenterprise Demonstration

- (a) Through a memorandum of understanding, HHS and SBA will jointly develop and administer a minimum 5-year, self-employment/microenterprise demonstration program. Consultation with Agriculture, HUD and Labor is also required. Participants must be persons with incomes below 130 percent of poverty or persons participating in JOBS, WORK or AFDC-only, with the percentage of welfare recipients to be established by the agencies. Local intermediaries (organizations or consortium of organizations) will apply to enter into agreements to demonstrate the program. Authorized amounts shall be \$4 million for fiscal years 97 and 02 and \$8 million for fiscal years 1998 - 2001.
  - (i) HHS and SBA, in consultation with public and private organizations, will identify promising program models currently used to provide self-employment and related services to low-income individuals and design a demonstration to evaluate, using a randomized experimental design, at least two types of models with contrasting levels

of technical assistance. The agencies may fund up to five other projects with designs that do not lend themselves to a randomized experiment.

- (ii) HHS and SBA may provide technical assistance, grants, loan guarantees and loans to intermediaries.
- (iii) In selecting intermediaries, SBA and HHS will take into consideration the applicant's record of success, program design, capacity and other criteria.
- (iv) Intermediaries must have contracts with the local JOBS agency such that JOBS and WORK program funds will be used to provide supportive services including training and technical assistance for participants who are welfare recipients.
- (v) Preliminary and final effectiveness evaluation reports together with recommendations must be submitted to the President and Congress. A report on barriers is also required. The evaluation study shall take into consideration increase in self-sufficiency, reduced costs of public support, number of businesses and jobs created, cost-effectiveness, and program effectiveness. Early and regular feedback to the participating intermediaries is also specified.

#### 4. Other Legislative Changes

- (a) The Social Security Act and the Food Stamp Act will be amended, as appropriate, to comport with the changes in the tax laws. In addition, amendments will be drafted to include the following provisions:
  - (i) Lump sum income: Non-recurring lump sum income will not be counted for resource purposes in the month of receipt or the following month if put in an IDA.
  - (ii) The total exclusion for an AFDC assistance unit or Food Stamp household is \$10,000.

#### Rationale

*IDAs and other set-asides provide welfare recipients the opportunity to be entrepreneurs in the private sector and accumulate savings for specific purposes. This approach promotes self-sufficiency by empowering them to start their own businesses and encouraging them to save money they earn to build for their future. Additionally, the money saved in IDAs might be used by participants for educational and training purposes, thus saving local program resources.*

#### (C) Microenterprise (Self-Employment)

##### Current Law

##### Resource Exclusions

*Under Federal AFDC policy, except for real property, States may disregard for AFDC purposes income-producing property (as defined by the State) of self-employed individuals. States may also disregard income-producing property owned by a recipient who is not currently employed, but who the State reasonably expects to return to work. Federal regulations at 45 CFR 233.30(a)(3)(xxi) require that States disregard, for AFDC purposes, bona fide loans from any source for any purpose that meet the criteria set out in the State Plan.*

Section 5(g)(2) of the Food Stamp Act and implementing regulations at 7 CFR 273.8(e)(4), (5), (6), (9), (15) and (16) exclude "property which annually produces income consistent with its fair market value; property which is essential to the self-employment of a household member; installment contracts for the sale of lands and buildings, if the contract ... is producing income consistent with fair market value; resources.. of.. self-employed persons, which has been prorated as income;" non-liquid assets with liens resulting from business loans; and real or personal property that is needed for maintenance of certain vehicles.

### Specifications

- (a) Amend the Social Security and Food Stamp Acts to give the respective Secretaries the authority to specify in regulations exclusions necessary for self-employment. Require that these regulations be prepared jointly and demonstrate consistency between the two programs.
- (b) Amend the Food Stamp Act to exclude business loans from resources.

### Rationale

Current AFDC policy does not permit funds necessary for the operation of a microenterprise to be excluded separately from the general \$1,000 resource limit. This restriction discourages recipients from establishing small businesses. By expanding the microenterprise resource exclusions, microenterprise owners will be able to set aside sufficient liquid resources to operate the business.

## 3. INCOME ISSUES

### Vision

Federal laws or rules frequently disregard a part or the total income of applicants and recipients in determining eligibility and benefits for assistance programs. Often, the same income is treated differently in the AFDC and Food Stamp programs. Such differences are incomprehensible to recipients and difficult to administer.

Our goal is to adopt uniform equitable income disregard policies for the AFDC and Food Stamp programs which are easy to understand, simple to administer and promote work and education.

### 1. Treatment of Lump Sum Income

#### Current Law

Under Section 402(a)(17) of the Social Security Act, non-recurring lump sum income is considered to be available to meet an AFDC family's current and future needs. If the assistance unit's countable income, because of receipt of lump sum income, exceeds the applicable State need standard, the unit is ineligible for a period determined by dividing the total countable income (including the lump sum) by the need standard.

The Food Stamp Act, at 5(d)(8), excludes from income non-recurring lump sum payments. Such amounts, if not spent in the month received, are treated as resources.

Specifications

For applicants and recipients:

- (a) Amend section 402(a)(17) of the Social Security Act (SSA) to exclude non-recurring lump sum payments from income.
- (b) Amend both the SSA and FSA to disregard as resources, for one year from the date of receipt, non-recurring lump sum payments that are reimbursements or advanced payments.
- (c) Amend both the SSA and the Food Stamp Act (FSA) to disregard the amount of any Federal or State EITC lump sum payments as resources for one year from receipt.

Rationale

*Lump sum payments are treated completely differently in the two programs. Considerable simplification for both the clients and workers can be achieved if the policies are consistent. Also, current AFDC policy can result in hardship for families since they are supposed to conserve the payments to meet future living expenses rather than to cover debts and other costs.*

2. Treatment of Educational AssistanceCurrent Law

*Several laws address the treatment of educational assistance for AFDC. Any educational assistance provided under programs in title IV of the Higher Education Act or the Bureau of Indian Affairs must be disregarded (P.L. 102-325, sec. 479B). A State must disregard payments made for attendance costs under the Carl D. Perkins Vocational and Applied Technology Education Act (P.L. 101-392, sec. 507(a). Under AFDC rules, the State must disregard educational loans and grants that are obtained and used for direct educational expenses, such as tuition and books (233.20(a)(3)(iv)(B). (Any of the educational assistance covering items in the State's need standard is counted as income.) Also, States may disregard all educational assistance as complementary assistance that is for a different purpose than AFDC (233.20(a)(3)(vii)(a)).*

*Portions of income received under the Job Training Partnership Act and the Higher Education Act are disregarded in the Food Stamp program. By regulation, such educational assistance provided on behalf of the household for living expenses, food, or clothing to the extent that the funds exceed the costs of tuition and mandatory fees are counted as income. (7 CFR 273.9(c)(1)(v); 273(c)(3); 273(c)(4); 273.9(c)(5)(i)(D); and 373.9(c)(10)(xi).*

Specifications

- (a) Amend the Social Security Act and Food Stamp Act to totally disregard all educational assistance received by applicants and recipients.

3. Earnings of StudentsCurrent Law

*For a dependent child receiving AFDC, the earned income of a full-time or part-time student (not employed full-time) attending a school, college, or university, or a course of vocational or technical*

*training designed to fit him for gainful employment is disregarded (402(a)(8)(A) of the Social Security Act). At State option, the earned income of a dependent child applying for AFDC may also generally be disregarded. The earnings of minor parents attending school are not excluded.*

*Effective September, 1994, the Food Stamp program will exclude the earnings of elementary or high school students age 21 and under (FSA 5(d)(5); 7 CFR 273.9(c)(7).*

#### Specifications

- (a) Amend the Social Security and Food Stamp Acts to conform Food Stamps to AFDC policy and limit the disregards to elementary and secondary students up to age 19.

#### 4. Irregular Income

##### Current Law

*No statutory provisions address irregular income for AFDC. Rules permit States to disregard small, nonrecurring gifts not to exceed \$30 per individual per quarter (233.20(a)(3)(iv)(F).*

*The Food Stamp Act (Sec. 5(d)(2)) requires the exclusion of income of \$30 or less in a quarter per household received too infrequently or irregularly to be anticipated. The exclusion does not apply under retrospective budgeting.*

##### Specifications

- (a) Amend the Food Stamp Act to conform to AFDC rules to exclude inconsequential income not in excess \$30 per individual per quarter.

#### 5. Treatment of JTPA Income

##### Current Law

*For AFDC, the income of a dependent child which is derived from participation in a JTPA program may be disregarded. Earned income may be disregarded for a period up to six months per calendar year. Unearned income may be disregarded indefinitely (section 402(a)(8)(A)(v) of the SSA).*

*Under Food Stamps, training allowances from vocational and rehabilitation programs and JTPA earnings are excluded, except income from on-the-job training programs under section 204(5) of title II. All OJT income of individuals under age 19 and under parental control is excluded. (7 CFR 273.9(b)(1)(iii) and (v); 273.9(c)(10(v))*

##### Specifications

- (a) Amend the Social Security and the Food Stamp Acts to disregard as income all training stipends and allowances received by a child or adult from any program, including JTPA.
- (b) Eliminate targeted earned income disregards so that the earned income from any on-the-job training programs or from a job will be counted after the general earned income disregards are deducted.

## 6. Supplemental Payments

### Current Law

*Section 402(a)(28) of the Social Security Act requires those States that deduct income from the need rather than the payment standard (fill-the-gap) now and in July of 1975 to provide a supplemental payment to families who have less disposable income because child support is paid to the child support agency instead of directly to the family.*

*Food Stamps - No such provision exists in the Food Stamp program.*

### Specifications

- (a) Amend the Social Security Act to remove this provision.

## 7. Treatment of In-kind Income

### Current Law

*AFDC rules require earned in-kind income to be counted. As a matter of policy, States may disregard any unearned in-kind income. If the State elects to count unearned in-kind income, the amount counted is limited to the value of the item in the State's need standard.*

*Under Food Stamps, in-kind benefits such as food, clothing, housing, produce are excluded. (FSA 5(d)(1); 7 CFR 273.9(c)(1))*

### Specifications

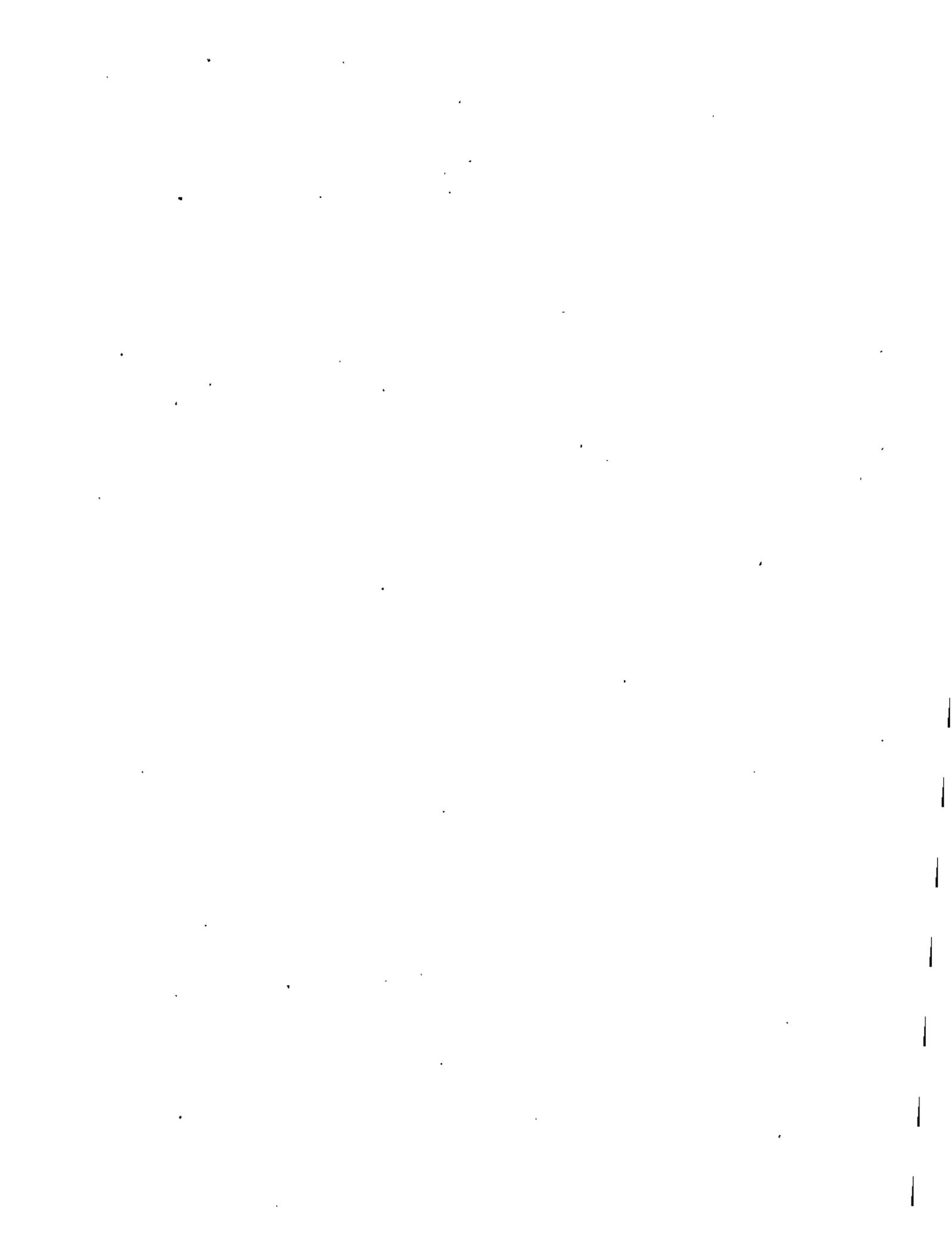
- (a) Amend the Social Security Act to require States to disregard both earned and unearned in-kind income.

## 8. Treatment of National and Community Service Act Benefits

### Current Law

*No statutory provision excludes, for purposes of the AFDC program, allowances, stipends and educational awards received by participants in a National Service program established under the National and Community Service Act of 1990, as amended by the National and Community Service Trust Act of 1993.*

*The Food Stamp program will exclude from income National Service program benefits. The National and Community Service Act, as amended, specifies that the exclusion in section 142(b) of the Job Training Partnership Act (JTPA) applies to National Service program benefits. Section 142(b) of the JTPA provides that payments will not be considered as income for purposes of income transfer and in-kind aid furnished under any Federal or federally assisted program based on need, other than Social Security Act programs.*



Specifications

- (a) Amend section 402(a)(8)(A) of the Social Security Act to disregard from the income of a family allowances, stipends and educational awards received by volunteers participating in a National Service Program under the National and Community Service Act of 1990, as amended by the National and Community Service Trust Act of 1993.

**4. OPTIONAL RETROSPECTIVE BUDGETING**Current Law

*For the AFDC program, the Social Security Act permits States to use retrospective budgeting only for the categories of families required to monthly report. The Food Stamp Act permits States to retrospectively budget cases that are not required to monthly report.*

Specifications

- (a) Amend the Social Security Act at section 402(a)(13) to delete the clause "but only with respect to any one or more categories of families required to report monthly to the State agency pursuant to paragraph (14),". This technical amendment will make retrospective budgeting optional for States without regard to whether families are required to monthly report.

Rationale

*Allowing States to use retrospective budgeting without requiring cases to monthly report will foster consistency between the AFDC and Food Stamp programs, and will give States greater flexibility to administer their programs.*

**5. MISCELLANEOUS ADMINISTRATIVE PROVISIONS****1. Underpayments**Current Law and Policy

*Section 402(a)(22) of the Social Security Act requires State agencies to promptly take all necessary steps to correct any underpayment. Regulations at 45 CFR 233.20(a)(13) limit the issuance of underpayments (both agency and client caused) to current recipients and former recipients who would be currently eligible if the error causing the underpayment had not occurred. As a result of litigation, program policy also permits States to issue underpayments to former recipients who would no longer be currently eligible. The amount of the underpayment is not limited by the number of eligible months covered.*

*Section 11(e)(11) of the Food Stamp Act provides that benefits are to be restored to a household requesting them if the benefits have been "wrongfully denied or terminated." The period for which benefits are restored is limited to one year prior to the date the State agency either receives a request for restoration from the household or otherwise learns that a loss to the household occurred. The Food Stamp rule (7 CFR 273.17) also prohibits the State agency from restoring benefits for a period longer than 12 months. The rule requires that benefits be restored even if the household is currently ineligible.*

Vision

*To provide clients with a rational and consistent policy in the processing of underpayments.*

Specifications

- (a) Amend section 402(a)(22) of the Social Security Act to conform to Food Stamp law by requiring the issuance of agency caused underpayments to current and former recipients for a period not in excess of 12 months from the date that the agency learns about the underpayment.

Rationale

*Since clients are responsible for reporting changes in circumstances that affect eligibility and benefits, a 12-month limit on restoring lost benefits due to agency error reinforces positive behavior. The change also achieves consistency between the AFDC and Food Stamp underpayment policies. However, because the proposal represents a contraction of AFDC program policy (i.e., the prohibition on underpayments due to client error) client advocacy groups are likely to object.*

2. Recovery of Overpayments Through Federal Tax InterceptCurrent Law

*Section 402(a)(22) of the Social Security Act requires, as a condition for aid and services to needy families with children, a State plan which must provide that a State agency will promptly take all necessary steps to correct any overpayment to any individual who is no longer receiving aid under the plan. Recovery shall be made by appropriate action under State law against the income or resources of the individual or the family.*

Vision

*To allow State agencies to recover AFDC program overpayments through the use of a tax intercept program in coordination with the IRS. A 50% match rate to cover administrative costs will be provided.*

Specifications

- (a) Amend section 402(a)(22)(b) of the Social Security Act to permit State agencies to coordinate with the IRS to intercept Federal Income Tax Returns for the collection of outstanding AFDC overpayments, provided they pursue other means of collection under State law prior to using the Federal tax intercept program. The tax intercept recovery method would only be used to recover overpayments made to individuals who are no longer receiving aid under the plan.
- (b) The administrative costs would have a 50% Federal match rate for State contributions.

Rationale

*Currently States have the authority to intercept State tax refunds but are unable to do so if the overpaid individual moves to another State. A Federal system would allow States to collect from individuals, regardless of their State of residence. FNS has been running an IRS tax intercept program as a demonstration project since 1992. The program has proved to be very effective in*

collecting outstanding overpayments, so much so that FNS has expanded the demonstration every year to include more States. A 50% match for administrative costs supports the Administration's philosophy that the administration of the AFDC program should be an equal Federal/State partnership.

### 3. Administrative Cost Structuring for Certain Social Services

#### Current Law

Section 402(a)(15) of the Social Security Act provides for certain services to be offered and provided promptly (directly or under arrangements with others) to all individuals voluntarily requesting such services. Services will be voluntary and shall not prerequisite to eligibility. This is to be provided to each appropriate relative and dependent child receiving aid and for each appropriate individual (living in the same home as a relative and child receiving aid) whose needs are taken into account in making the eligibility determination.

#### Vision

Section 403(a)(3) indicates that administrative costs of such services are not matched at 50 percent if the State includes family planning services under their Title XX Social Services Block Grant Program. This policy would be amended to allow for administrative matching.

#### Specifications

- (a) Change Section 403(a)(3), to allow a 50 percent match for such services if they are provided under Title XX.

### 4. Declaration of Citizenship and Alienage

#### Current Law

Section 1137(d) of the Act requires, as a condition of eligibility for assistance, a declaration in writing by the individual (or, in the case of an individual who is a child, by another on his/her behalf) under penalty of perjury, stating whether or not the individual is a citizen or national of the United States, and, if such individual is not a citizen or national of the United States, whether he/she is in a satisfactory immigration status.

#### Vision

To bring the AFDC program into alignment with Food Stamps by allowing one adult member of an applicant assistance unit to sign the declaration of citizenship or alien status for all members of the unit.

#### Specifications

- (a) Amend the Social Security Act by revising section 1137(d)(1)(A) as follows:

- (1)(A) The State shall require, as a condition of an individual's eligibility for benefits under any program listed in subsection (b), a declaration in writing by the individual (or, in the case of an individual who is a child or a spouse in a two parent unit, by another on the individual's behalf), under penalty of perjury, stating whether or not the individual is a citizen or national of the United States, and, if that individual is not a citizen or national of the United States, that the individual is in satisfactory immigration status.

### Rationale

*The current requirement is administratively burdensome as it requires each adult in the AFDC unit to sign a separate declaration. This proposal will allow the adult payee or principal earner in an assistance unit to declare on behalf of his/her spouse and children, thereby simplifying the application and redetermination process. This proposal would also provide consistency with Food Stamps.*

## 6. TERRITORIES

*Welfare Reform Working Group staff have met with representatives from Puerto Rico and the other territories to discuss recommendations relative to the operation and funding of the territorial welfare programs. These representatives, including staff from the territorial Congressional delegation, recommended that we (1) eliminate the funding cap, and (2) extend SSI to the territories. In addition, the representative from American Samoa believes that the territory should be permitted to operate an Aid to the Aged, Blind, and Disabled (AABD) program and receive appropriate funding. The representatives also asked that funding for JOBS, child care, and the application of the time limit be addressed. For example, Puerto Rico is concerned that the two year time will be difficult to enforce in an economy with 18 percent unemployment.*

### Current Law

*Section 1108 of the Social Security Act permits the territories (i.e., Guam, Puerto Rico, and the Virgin Islands) to operate the AABD and AFDC programs; American Samoa is only authorized to operate an AFDC program. Funding for Child Care and Transitional Child Care is provided for under the JOBS limit of entitlement. If the territory elects to operate these programs, it must also have a title IV-E or Foster Care program. The territory must adhere to the same eligibility and payment requirements as the States. The Federal government matches 75 percent of costs; however, funding for the territories is capped. The caps are \$82 million for Puerto Rico, \$3.8 million for Guam, and \$2.8 million for the Virgin Islands. Between 1979 and the present, the caps were increased once, by roughly 13 percent.*

### Vision

*To create realistic funding levels for the territories that are reflective of the current economy and caseload. A mechanism that will provide occasional adjustments in funding levels will be developed to replace the current burdensome method of petitioning Congress for adjustments.*

### Specifications

- (a) Continue to require the territories to operate the AABD, AFDC (including JOBS supportive services) and Foster Care programs. Amend section 1108 of the Social Security Act to increase the caps by an additional  percent and create a mechanism for indexing. The effective date shall be October 1, 1996.

- (b) The territories would not be required to operate AFDC-UP programs (effective upon enactment of this act).

### Rationale

*The number of public assistance programs funded under the current caps, coupled with only one adjustment to these caps in 15 years, has seriously limited the territories' abilities to provide, let alone increase benefits. Benefit payments above the cap are financed 100 percent by the territories, resulting in situations such as Guam's where the Federal share is roughly 40 percent. Puerto Rico reports that, since 1987, AFDC caseloads have nearly doubled from 98,000 units to 183,000 units. Further, beginning October, 1994, Puerto Rico will be required to extend eligibility to two-parent families. Puerto Rico estimates that an additional 40,000 families will be eligible for AFDC due to this provision. If match rates were determined by formula, as they are in the States, the territories would be eligible for higher match rates. Increasing the caps and providing a mechanism for efficient adjustments to those caps will not only continue to give territories the authority to operate public assistance programs but adequate means to do so as well (See Appendix A, Fact Sheet On The Territories).*

## B. REGULATORY REVISIONS

*The effort, compromise and time involved in making statutory revisions and amendments make the identification of reforms that can be implemented with comparative ease through regulatory amendment and revision a must. The following proposals, while few in number, will provide for more timely reforms and allow States to at least begin to simplify and streamline assistance programs while the broader reforms are addressed by Congress. All regulatory provisions would be published within 6 months of enactment of this act.*

### 1. MICROENTERPRISE EXPENSES (SELF-EMPLOYMENT)

#### Current Requirements

*In the AFDC program, the rules (45 CFR 233.20(a)(6)(v)(B)) provide that profit from self-employment (e.g., microenterprises) is derived from subtracting business expenses from gross receipts. All the earned income disregards (Section 402(a)(8)) are applied to the profit the same as income from wages. Allowable business expenses are those directly related to producing goods or services. However, the following expenses are not allowed: depreciation, purchases of capital equipment, payments on the principal of loans for capital assets or durable goods, personal transportation, and personal business or entertainment expenses. A State may designate an objective flat amount or percentage for self-employment business expenses, but must allow higher actual costs.*

*The Food Stamp program excludes from income the cost of producing self-employment income. The rules (273.11(a)(4)(i)) list the following examples of the specific costs that should be excluded: the identifiable costs of labor, stock, raw material, seed and fertilizer, interest paid to purchase income-producing property, insurance premiums, and taxes paid on income-producing property. The following expenses are not excluded as costs of doing business: payments on the principal of the purchase price of income-producing real estate and capital assets, equipment, machinery, and other durable goods; net losses from previous periods; and depreciation. In addition, Federal, State, and local income taxes, retirement monies, and other work related personal expenses (such as transportation to and from work) are not allowed because these expenses are accounted for by the 20 percent earned income deduction in Section 273.9(d)(2).*

#### Regulatory Specifications

- (a) Change the Food Stamp and the AFDC regulations to provide a deduction of the amount of depreciation or the actual cost of purchasing the asset as claimed for tax purposes, or if none yet claimed according to State criteria.
- (b) Delete current language in AFDC regulations to conform with Food Stamp rules by adding examples of specific costs of producing self-employment income, such as the identifiable costs of labor, stock, raw material, interest paid to purchase income producing property, insurance premiums, and taxes paid on income producing property.

#### Rationale

*A compatible AFDC/Food Stamp exclusion for business expenses, including a deduction for depreciation or actual the actual expenses of necessary assets, would result in greater effectiveness, clarity and efficiency in the administration of both programs. The change would encourage self-employment, self-sufficiency and recognize the legitimate cost of doing business. Allowing the*

eligibility worker to recognize business deductions as claims by the individual for income tax purposes would simplify such calculations.

## 2. BOARDER INCOME

### Current Requirements

*Under the AFDC program, neither the statute or rules address allowable costs of business income received from boarders. Under program policy, a State may designate a flat amount or percentage for self-employment business expenses. However, the State must allow higher documented costs.*

*The Food Stamp Act is also silent on specific procedures for determining the income of households with self-employment income from boarders. However, the House Report which accompanied the Food Stamp Act of 1977 (H.R. 95-464, page 38) indicates Congressional intent that the cost of doing business for boarder income be calculated "for purposes of administrative ease, at a fixed rate or the value of a monthly coupon allotment for a one-person household" for each boarder. The report also indicates Congressional intent that actual costs be allowed, but the cost exclusions from income cannot exceed the income received.*

*Section 273.11(b)(1) of the Food Stamp rules provides procedures for calculating the income received from boarders based on the legislative history contained in the Food Stamp Act. Income from boarders includes all direct payments to the household for room and meals, including contributions to the household's shelter expenses. The cost of doing business is either (1) the maximum allotment amount for a household size that is equal to the number of boarders or (2) the actual documented cost of providing room and meals, if that cost exceeds the maximum allotment amount. If actual costs are used, only separate and identifiable costs of providing room and meals to boarders can be excluded. The excluded costs cannot exceed the amount of income received.*

### Regulatory Specifications

- (a) Modify AFDC and Food Stamp rules to permit States the option to allow a flat rate, a percentage, or either the maximum allotment for a household of the same size as the number of boarders in the thrifty food plan or the actual documented cost, if it is higher than the allotment. The same procedure would be adopted for each program.

### Rationale

*A uniform AFDC/Food Stamp policy in calculating boarder income would result in greater effectiveness and efficiency in the administration of both programs.*

## 3. REPORTING AND BUDGETING

*One of the major complaints about the differences between the AFDC and Food Stamp programs is that the programs use different periods to determine benefits for the current month and require too much reporting of changes in circumstances. In a transitional program where more recipients may have fluctuating income, the reporting burdens on recipients, the fluctuations in benefit amounts, and the constant need for case worker recalculations of benefits would impose complexity on all parties involved.*

## Current Requirements

### 1. Monthly Reporting and Budgeting Requirements

*Both AFDC and Food Stamps permit States to adopt monthly reporting requirements and to use either retrospective or prospective budgeting to determine the benefit amounts for some or all cases. Yet there are some differences in application. For example, the Food Stamp Act permits retrospective budgeting of non-monthly reporting cases, while the Social Security Act does not.*

*Under a monthly reporting and retrospective budgeting system, families report income and other case circumstances every month, whether or not a change affecting eligibility and payment amounts has occurred since the previous month. This information, as well as any supplementary report of a change in circumstances, is used to determine continued eligibility and to determine the amount of assistance based on a prior month's income.*

*Under a prospective budgeting system, eligibility and benefit amounts are based on a projection of income and circumstances that will exist in the month for which payment is to be made. The Food Stamp program by regulation and statute is more prescriptive in how the estimates are to be made. The AFDC rules are not contained in statute and provide States more flexibility in making the estimate.*

### 2. Effective Date of Reported Changes

*Both programs require families to report changes in circumstances. In AFDC, States must establish procedures for timely and accurate reporting of changes that affect eligibility and amount of assistance. Any change is effective in the month it occurred. Food Stamp rules allow for a tolerance in which a change of less than \$25 per month does not have to be reported and the rules governing the effective date of any change give the recipient and agency time to report and act upon the change.*

### 3. Recertification Period

*In the Food Stamp program, recertification of eligibility is mandatory and must occur every one to twelve months (depending on the characteristics of the household) under specific procedural rules. In AFDC, redetermination of eligibility must occur every six to 12 months according to State established procedures. Unlike AFDC, food stamp benefits automatically terminate when the certification period expires.*

## Regulatory Specifications

- (a) Allow States to continue to use retrospective and prospective budgeting. Require recipients to timely report all significant changes in circumstances affecting eligibility or the amount of assistance.
- (b) Require the State to make timely adjustments to benefits, both up and down, when significant changes in income and other factors are reported by the recipient. Significant changes in income include getting or losing employment, promotion, permanent changes in hours worked, etc. Non-permanent fluctuations in income (overtime, absence) are not considered to be significant.

- (c) Overpayments would not occur where recipients report timely and the agency makes adjustments no later than the second month after the month in which the change occurred, subject to notice requirements. These specifications closely conforms to current Food Stamp program policy.

### Rationale

*These proposed administrative rules will significantly simplify benefit calculation procedures for joint AFDC/Food Stamp households. By rationalizing the procedures in benefit determination and calculation, workers and recipients will benefit through less paperwork processing and time spent on recalculating benefits because of fluctuations in income. The rules maintain a balance between assuring benefits are accurately determined by reducing the current complexities retaining the appropriate level of responsibilities on recipients to report information.*

## **4. AUTOMOBILE RESOURCE LIMIT**

### Current Requirements

*The Social Security Act provides for the exclusion of so much of a family member's ownership interest in one automobile as prescribed by the Secretary. That exclusion is set by regulation at \$1500 equity value (or a lower limit set by the State) in one vehicle with any excess equity value counted toward the \$1,000 AFDC resource limit.*

*The Food Stamp Act provides for the total exclusion of vehicles that are used over 50 percent of the time for income-producing purposes; annually producing income consistent with their FMV; necessary for long distance travel for work (other than daily commute); used as the household's home; or needed to transport a physically disabled household member. For the following vehicles, the amount of the FMV over \$4,500 is counted as a resource: one per household (regardless of use); and vehicles used for work, training or education to prepare for work in accordance with food stamp employment and training requirements. For all other vehicles, the FMV over \$4,500 or the equity value, whichever is more, is counted as a resource.*

### Vision

*Reliable transportation will be essential to achieving self-sufficiency for many recipients in a time-limited program. Because a dependable vehicle is important to individuals in finding and keeping a job, particularly for those in areas without adequate public transportation, both the AFDC and the Food Stamp programs need a conforming automobile resource policy that supports acquiring reliable vehicles. This proposal would simplify the automobile resource policy by conforming the program rules and reducing the unnecessary complexity and confusion for program administrators in both programs.*

### Regulatory Specifications

- (a) Exercise Secretarial authority and amend the regulations to increase the AFDC automobile limit to \$3,500 equity value, indexed for inflation.

## Rationale

*This proposal is a first step towards bringing a level of conformity between the two programs that would eliminate some of the administrative complexity involved with valuing vehicles under varying criteria and would result in greater effectiveness and efficiency in the administration of both programs.*

## **5. - VERIFICATION**

### Current Requirements

*Food Stamp law and regulations include specific requirements for verification and documentation of information needed for eligibility and benefit determinations. Food Stamp regulations mandate verification of utility and medical expenses (when actual is claimed), identity, residency (address), disability and household composition. In the AFDC program, the Act and regulations do not address how verification is to occur but State procedures have generally conformed to the verification policy outlined in the Federal quality control manual.*

*Under the Food Stamp Act (FSA) (sections 11(e)(3),(9)) and Social Security Act (Act) (sections 402(a)(25) and 1137), income must be verified through the Income and Eligibility Verification System (IEVS). The State must request wage and benefit information for from the State Wage Information Collection Agency, the Social Security Administration, and the agency administering Unemployment Insurance Benefits. Unearned income information must be requested from the Internal Revenue Service. Both programs are also required by law to verify alien status through the Immigration and Naturalization Service's Systemic Alien Verification for Entitlement system.*

*Both programs review the accuracy of eligibility decisions and benefit amounts through quality control systems, with the intended result that much information is verified at application and at recertification to avoid errors. States may, in both programs, adopt other verification requirements.*

### Vision

*Federal computer matching and verification requirements are often burdensome for both clients and eligibility staff. Even where States have flexibility, the emphasis on payment accuracy and the potential for fiscal quality control penalties have often resulted in unnecessary documentation, delays in benefits and improper denials and terminations. Yet, to assure the public that their taxes are being spent to serve only those in need, verification will continue to be a critical component of the new system for delivering assistance to families. States must be afforded the flexibility to simplify matching procedures, while assuring program integrity through minimum standards.*

### Regulatory Specifications

- (a) Exercise current Secretarial waiver authority for IEVS and SAVE to give States greater flexibility relative to the selection of alternate sources for matching activities, the elimination of certain matches, the targeting of client groups for matching and follow-up verification, and the modification of time frames for follow-up action on match "hits." Amend the Federal regulations on IEVS and change the ACF review perspective on SAVE (given the absence of regulations in this area) to provide greater latitude on what can be waived and the applicable State justification.
- (b) Verification systems and time-frames for action will be included in the State Plan.

## Rationale

*States will welcome the increased flexibility provided by this proposal and be able to streamline their verification activities, saving time and paperwork. At the same time, the State plan approval process will ensure adequate protection of client rights and program integrity without restricting State flexibility.*

### **6. OTHER RESOURCE EXCLUSIONS**

- (a) **Burial Plots:** Propose regulations to amend the Social Security Act to totally exclude one burial plot per family member to conform to the Food Stamp policy.
- (b) **Funeral Agreements (Burial Plans):** Propose regulations to totally disregard one funeral agreement per family member.

### **7. TREATMENT OF INCOME FROM COMPLEMENTARY PROGRAMS**

#### Current Law

*Under AFDC regulations, States may disregard assistance from other agencies and organizations that are for a different purpose (complementary) than AFDC and do not duplicate needs already met in the need standard. (45 CFR 233.20(a)(3)(vii))*

*With specified exceptions, the Food Stamp program disregards cash donations based on need to the household not to exceed \$300 in any one quarter from one or more charitable organizations. (FSA 5(d), (k); 7 CFR 273.9(b), (c)(13).)*

#### Regulatory Specifications

- (a) The Secretary of HHS will consider adopting the current Food Stamp policy.