WAIVER FILE
* IMPORTANT
Can we shape waiver requests on WR through SOW

Overview of Welfare Reform Waivers (12/20/93)

**CURRENT AND NEAR-TERM APPLICATIONS**

Currently, 17 waiver applications from 16 States are pending:

| | | |
|---|---|---|
| Arkansas<br>California*<br>Colorado*<br>Florida*<br>Georgia*<br>Hawaii* | Massachusetts*<br>Mississippi<br>New Hampshire*<br>North Dakota<br>Ohio* | Oklahoma*<br>Oregon*<br>South Dakota*<br>Texas*<br>Washington |

We expect to receive applications shortly from 3 additional States:

| | | |
|---|---|---|
| Connecticut** | Pennsylvania** | South Carolina* |

Pennsylvania is preparing two waiver applications.

Additional States may submit waivers before the end of the year because there is a persistent rumor that the Administration is planning to cut off accepting new waiver applications beginning January 1, 1994, in order to facilitate the President's own welfare reform initiatives.

**LONGER-TERM ACTIVITY**

We have indications that the following 14 States are also in some stage of developing proposals (4 of these already have other approved or pending waivers):

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| Arizona*<br>Delaware<br>Illinois*<br>Indiana<br>Kansas* | Kentucky<br>Maryland**<br>Massachusetts*<br>Montana<br>Nebraska* | Nevada*<br>North Carolina<br>Oklahoma*<br>Texas* |

* State has gubernatorial election in 1994.
** State has gubernatorial election in 1994, but governor known not to be running for reelection.

Nine other States, not listed above, have gubernatorial elections in 1994. They are:

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| Alaska* | Maine* | Rhode Island* |
| Georgia* | New Mexico* | Tennessee* |
| Idaho* | New York* | Wisconsin* |

Alaska and Maine have previously developed proposals, but did not submit them.

The following three States, not listed above, do not have pending waiver applications, are not known to be developing any welfare reform initiatives, and do not have gubernatorial elections in 1994.

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| Louisiana | Missouri | West Virginia |

The following States may be unlikely to seek additional waivers because they are occupied with carrying out or implementing significant demonstration projects:

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| Alabama* | Minnesota* | Vermont* |
| California* | New Jersey | Wisconsin* |
| Iowa* | Oregon* | Wyoming* |
| Michigan* | Utah | |

| STATE | INITIATIVE | KEY DATES | COMMENTS |
|---|---|---|---|
| **APPROVED** | | | |
| Georgia | Provide family planning and parenting services; eliminate increased AFDC benefit for additional children conceived while receiving AFDC; require able-bodied adults to accept full-time employment if they are not caring for children under 14. | Appl. Rec'd 5/18/93<br><br>Appl. Approved 11/1/93 | |
| Illinois | Change earnings disregards and increase gross income test. | Appl. Rec'd 8/2/93<br><br>Appl. Approved 11/23/93 | |
| Iowa | Multi-faceted proposal including: changes in income disregards, increased resource limits, limiting JOBS exemptions, extending child care transitional benefit to 24 months, requiring most parents to develop self-sufficiency plan which includes individually based time frame for achieving self-sufficiency. Those unable to achieve self-sufficiency, but demonstrating effort and satisfactory performance, will have their time frames extended; those failing to do so, or choosing not to develop a plan, can be terminated from AFDC and cannot re-apply for 6 months. | Appl. Rec'd 4/29/93<br><br>Appl. Approved 8/13/93 | |

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| Vermont | Require participation in subsidized employment after 30 mo for AFDC and 15 mo for AFDC-UP cases, broaden AFDC-UP eligibility, change earnings disregards, change JOBS exemptions, disburse child support to AFDC family, require most minors to live in supervised setting, extend eligibility in child-only cases. | Appl. Rec'd 10/27/92<br><br>Appl. Approved 4/12/93 |
| Virginia | Includes 4 project components: 1) Recipients on AFDC for at least 2 years who meet other criteria can volunteer to be considered for jobs expected to pay $15-18,000/yr. Training stipends equal to AFDC will be paid initially. 2) Provide additional 24 mo. child care and Medicaid transition benefits. 3) Establish a child support insurance program for those leaving AFDC due to earnings. 4) Change method of counting step-parent income when AFDC recipient marries; increase resource limit to $5,000 for education and housing purposes; extend AFDC eligibility to full-time students until age 21. | Appl. Rec'd 7/13/93<br><br>Appl. Approved 11/23/93 |

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| Wisconsin | AFDC and cashed-out food stamps benefits are combined into one Work Not Welfare (WNW) payment with benefits limited to 24 monthly payments and 12 months of transition benefits within a 48 month period; after 24 months of payments no additional cash payments are available for 36 months unless an exemption is granted. The WNW benefit must be "earned" by participation in education, training or work-related activities and in most cases benefits do not change between eligibility determinations as income changes. The AFDC portion of the WNW payment for children conceived after first receiving a WNW payment is not increased unless a child was conceived after not receiving a WNW payment for six months; child support collections are paid directly to the family; the 100 hour rule is eliminated for AFDC-UP cases; and earned income disregard of $30 and 1/3 is replaced by continuous disregard of $30 and 1/6. | Appl. Rec'd 7/14/93<br><br>Appl. Approved 11/23/93 | |
| Wyoming | Require able-bodied AFDC applicants and recipients to work or perform community service, require school attendance for those 16 and over, change sanction penalties for non-compliance with work requirements, increase resource limit for employed families, limit or eliminate AFDC benefits in certain cases where recipient is in post-secondary ed. program, and provide JOBS to non-custodial parents court-ordered to participate. | Appl. Rec'd 5/20/93<br><br>Appl. Approved 9/1/93 | Denied additional waiver request to provide lesser of benefit for Wyoming or prior state of residence for 12 months for new residents. |

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| **DENIED** | | | |
| Illinois | Would have paid lesser of previous State of Illinois benefit for 12 months for new residents. | Appl. Rec'd. 10/7/92<br>Appl. Den'd. 8/3/93 | |
| **WITHDRAWN** | | | |
| Illinois | Provide incentives for school attendance; require participation in a Community Service Corps (CSC) for those with children under 3; provide wage subsidy for up to 6 months after completing CSC. | Appl. Rec'd 10/7/92 | |
| South Carolina | Provides for work experience at for-profit sites, disregard of training allowances, changes to earnings disregards. | Appl. Rec'd 12/9/92<br>Appl. Withdrawn 11/4/93 | State developing alternative proposal. |
| **RECEIVED** | | | |
| Arkansas | Eliminate increased AFDC benefits for additional children; provide special counseling to 13-17 yr olds and require participation in educational activity. | Appl. Rec'd 1/14/93 | Conference calls with State 10/13, 11/16, and 11/24. Draft terms and conditions sent to Federal reviewers 12/2. |

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| California | Implement Cal. Learn, a Learnfare program that provides both bonuses and sanctions. Increase the resource limit to $2,000 and the automobile exemption to $4,500 and allow savings of up to $5,000 in restricted accounts. Create an Alternative Assistance Program that allows AFDC applicants and recipients with earned income to choose Medicaid and Child Care Assistance in lieu of a cash grant. Implement multiple reforms to the GAIN (JOBS) program.<br><br>Provisions would be added as amendments to Assistance Payments Demonstration Project (APDP) approved 10/29/92. | Appl. Rec'd 9/29/93 | Analysis paper sent to State 11/24. Conference call with State 12/6. State has responded, in part, to some of the issues raised by analysis paper. Draft terms and conditions being developed. |
| Colorado | Establish a 2-year time limitation sanction for non-cooperative employable AFDC adults; consolidate AFDC, Food Stamp, and Child Care benefits into a single comprehensive benefits package; disregard a portion of all earned income, replacing all current income disregards; require all AFDC households with children under the age of 24 months to have current immunization, failure to comply will result in a financial sanction; provide incentives to participants who graduate from high school or obtain a GED; exempt the asset value of one care; and increase the resource limit to $5,000 for those families with an able-bodied adult who is employed or has been employed within the last 6 months. | Appl. Rec'd 6/30/93 | Draft Terms and Conditions sent to State 9/10. State responded with comments 9/16 and conference call held with State 9/28. Conference call with State held 11/23. Met with State officials 12/17. New draft terms and conditions being developed. |

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| Florida | With some exceptions, AFDC benefits will not be received for more than 24 months in any 60-month period by applicants and current recipients. Would also replace the current $90 and $30 and one-third disregards with a single, non-time-limited disregard of $200 plus one-half reminder; eliminate the 100-hour rule, the required quarters of work, and (on a case-by-case basis) the 6-month time limit requirements in the AFDC-UP program. Increase transitional Medicaid and child care benefits; disregard the income of a stepparent whose needs are not included in the assistance unit for the first 6-months of receipt of public assistance, raise the asset limit to $5,000 plus a vehicle of reasonable worth used primarily for self-sufficiency purposes. Require school conferences, regular school attendance, and immunizations; and lower age of child for JOBS exemption to 6-months. | Appl. Rec'd. 9/21/93 | Analysis paper sent to State 11/12. Conference call with State 12/3. State response to analysis paper received 12/6. Met with State officials 12/16. Draft terms and conditions being developed. |
| Georgia | Assist recipients in securing unsubsidized employment by disregarding income earned by recipients for 12 months, disregarding resources accrued as a result of participation for 18 months, and providing intensive counseling and support services. Participants' AFDC and Food Stamp benefits would be frozen at the existing level when entering the project, gradually reduced following entry into employment, and not increased for changes in day care or housing costs. | Appl. Rec'd 10/21/93 | Analysis paper sent to State 12/20. |
| Hawaii | Place individuals on waiting list for placement in employment and training components under JOBS in On-the-Job Training (OJT) positions. | Appl. Rec'd. 11/3/93 | Met with State officials 11/19. Analysis paper sent to State 12/16. |

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| Massachusetts | Require JOBS participants to pay co-payment for child care. | Appl. Rec'd 1/14/93 | Analysis paper sent to State 8/13. Conference call with State 10/7. |
| Mississippi | Two work programs would be implemented in different locales, one of which would expand earned income disregards, and the other would emphasize work supplementation. In addition learnfare, mandatory immunizations, and other provisions would be implemented statewide. | Appl. Rec'd 12/10/93 | Application not complete. State will submit evaluation section 12/21. Holding distribution of application pending receipt of evaluation section. |
| New Hampshire | AFDC applicants and recipients would have the $200 plus 1/2 the remaining earned income disregarded. | Appl. Rec'd 9/20/93 | Draft Terms and Conditions sent to State 10/28. |
| North Dakota | Would make women in their first and second trimester of pregnancy eligible for AFDC. | Appl. Rec'd 8/19/93 | Analysis paper sent to State 12/17. |
| Ohio | Would increase automobile asset limit to $6000. | Appl. Rec'd 10/13/93 | Analysis paper sent to Federal reviewers 11/12. |
| Oklahoma | Require school attendance of AFDC recipients aged 13-18. | Appl. Rec'd 12/28/92 | Final approval package in clearance process. |
| Oregon | Provide individuals with short-term subsidized public or private OJT at State minimum wage with continued Medicaid eligibility and supplemental payments to offset any loss of AFDC benefits, provide participants with workplace mentoring and other support services, create an employer-funded "individual education accounts," and distribute child support collections directly to custodial family. | Appl. Rec'd 10/28/93 | Met with State officials 11/19. Analysis paper sent to State 12/16. |
| Oregon | Would increase automobile asset limit to $9000. | Appl. Rec'd 11/12/93 | Analysis paper being developed.. |

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| South Dakota | Time limit cash benefits for 24 mo. for those assigned to employment-readiness track and for 60 mo. for those in training track followed by required employment or volunteer service; total family ineligibility for 3 mo. for voluntarily quitting employment; provide one month transitional allowance after case closes due to earnings; disregard earned income and other assets of full-time students. | Appl. Rec'd 8/6/93 | Analysis paper sent to State 9/17. State response received 10/7/93. Conference call with State 10/21. Written follow-up response on issues of concern received 11/19/93. Preparing letter to State addressing disagreement on evaluation design. Draft Terms and Conditions also being developed. Governor to met with Secretary 12/17. |
| Texas | Extends AFDC benefits to two-parent families without regard to labor force attachment or number of hours worked. | Appl. Rec'd 9/29/93 | Application distributed to Federal reviewers 10/1/93. State has asked us to deny waiver request. Letter sent 11/24 informing State that waivers cannot be granted without condition that project be cost neutral to Federal government. |
| Washington | Eliminate 100-hour rule and work history requirements for AFDC-UP cases and subtract client earnings from 55 percent of the State need standard rather than the payment standard. | Appl. Rec'd 11/16/93 | Analysis paper being developed. |

| PRE-APPLICATION CONTACT | | |
|---|---|---|
| Alaska | Would repeal 100-hour role for AFDC-up; expand working incentives; increase resource and vehicle asset limit; eliminate "new job" requirement for work supplementation and extend transitional medicaid benefits. | ASPE official met with State Staff 6/22/93. |
| Connecticut | Statewide, would remove deprivation requirement in AFDC to allow children to receive assistance even if living with both parents, increase resource and vehicle asset limits and increase child support pass through to $100. In selected pilot sites, would decrease AFDC cash benefits and cash-out Food Stamps, impose a time limit on eligibility, create a child support assurance system, increase earned income disregards, establish even higher asset limits, and extend medical, child care and case management supports after a case is made ineligible due to earnings. | State officials met with ACF staff on 7/21 to discuss applying for waivers. Draft materials received 11/30 and initial comments conveyed to State 12/1. Draft application sent 12/7; formal application expected soon. |
| Minnesota | Would increase vehicle asset limits and earned income disregards for students. | Plans to apply for waivers. Preliminary materials sent by State. |

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| North Carolina | Proposal includes cashing out Food Stamps, developing a single eligibility determination for AFDC that includes a Food Stamp allotment, taking declarations in lieu of verifications on anything but "countable income," excluding "client errors" in determining error rate, recertifying eligibility annually, eliminating 75 percent of market rate cap on child care expenditures, and using project savings to provide well-child screenings. | State met with Department staff 10/12/93. |
| Pennsylvania | The Penn. Governor's task force has recommended a number of new provisions designed to help AFDC families move toward work and independence. These provisions would establish mutual responsibility, eliminate disincentives to work, strengthen families and support children, promote economic independence with a number of disregards and intensive case management, and simplify the process. | Draft application received 9/16. Conference call with State 9/27. Formal application was expected to be submitted in November. |
| Pennsylvania | Would budget income prospectively for applicants and recipients in during first two months with earnings and in the months after earned income stops. | Draft paper received 10/1/93. |

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| South Carolina | Would change earned income disregards and disregard the earned income of children, interest and dividend income, payments by DOD or the Employment Security Commission; allow stepparents same earned income disregard as recipients; increase the resource limit to $3000 and disregard the cash value of life insurance and full value of one vehicle; relax the parental deprivation requirements for AFDC-U cases; and require participants to comply with an individualized, time-limited, self-sufficiency plan as a condition of welfare receipt, followed by placement in public or private work experience if unsubsidized employment is not found. | Conference call with State to discuss draft materials 11/16/93. Draft application received 12/3. Conference call 12/9. Application expected 2/94. |
| **ANTICIPATED** | | |
| Arizona | Require participation by 13-16 yr old pregnant or parenting teens and to impose a minimum 1-month sanction for the first instance of non-compliance for all JOBS participants regardless of whether they then say they are willing to comply after notification of the sanction. | Proposal being developed by State. |
| Delaware | Would require recipients who have been on assistance for two years to perform community services or have their welfare benefits reduced and eliminate 100 hour rule for AFDC-UP families. | Draft proposal prepared by State task force. |
| Illinois | Would require community work as a condition of receipt of welfare after a case has received assistance beyond a given time limit. Chicago likely pilot site. | State staff developing proposal. |

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| Kansas | Would eliminate 100-hour and work history rules for AFDC-UP cases, make case eligibility dependent on experience to a self-sufficiency plan, increase earned income disregards, extend medicaid transition benefits, exempt assets of one vehicle, extend CWEP and OJT activities to include private businesses, provide case incentives for staying in school, establish coordinated teen pregnancy prevention effort and other initiatives targeting youth at-risk of long-term welfare dependency, guarantee payment of child support, seek voluntary acknowledgement of paternity, allow fathers of unborn child to receive assistance if they acknowledge paternity, establish electronic benefit transfer (EBT). | Proposal being developed by State. |
| Kentucky | Would time-limit receipt of welfare. | State developing proposal to submit to legislature. |
| Maryland | Provisions would be designed to move large numbers of participants into entry level, training -oriented program jobs, and then into regular jobs with career potential. May include subsidies to employers, Food Stamp cash-out, providing employment and training to non-custodial parents, and extension of some services to individuals at-risk of becoming AFDC recipients. | State developing a Full Employment Program proposal. |

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| Massachusetts | | Letter received from congressional delegation supporting earned income disregard waiver; however, we have not received a request from the state. ACF responded to State's letter of intent that approval would be subject to cost neutrality. |
| Montana | Would time-limit welfare, placing individuals in CWEP after time-limit expires. Considering other provisions such as one-time diversion payments, sliding scale child care and medical benefits, cash benefits for job starts, and changes in disregards and resource limits. | Proposal being developed by State. |
| Nebraska | | State task force on Welfare Reform to submit report to Governor by 10/1/93. |
| Nevada | | State previously failed to reach consensus on welfare reform proposals. A new welfare reform task force is developing a plan to submit in next legislative session. |
| Oklahoma | If individuals do not meet self-sufficiency goals outlined in a mutual responsibility agreement, they would be required to earn benefits by working at minimum wage for a State agency or have their needs removed from the grant. | Recommendations for welfare reform made by a State task force. |
| Texas | Would apply earned income against the need standard rather than the payment standard. | ACF Regional Office staff indicate the State staff are considering submission of a waiver application. |

## SUMMARY OF ACTIONS ON WAIVER APPLICATIONS - CLINTON ADMINISTRATION

RECEIVED - 29 Applications from 24 States
(9 Applications from 7 States were left pending from the previous Administration)

APPROVED

States Applications - 7 Applications from 7 States

Georgia (Personal Accountability and Responsibility Project)

Illinois (Work Pays Project)[1]

Iowa (Iowa Family Investment Plan)

Vermont (Family Independence Project)

Virginia (Welfare Reform Project)

Wisconsin (Work Not Welfare Demonstration)

Wyoming (New Opportunities and New Responsibilities Welfare Reform Demonstration)

DENIED

States Applications - 2 Applications from 2 States

Illinois (Relocation to Illinois Project)

Wyoming (Wyoming Relocation Grant)[2]

WITHDRAWN

States Applications - 3 Applications from 2 States

Illinois (Stepparent Encouragement Project)

Illinois (One Step at a Time Project)

South Carolina Private\for Profit Work Experience Project)

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[1] Added component to Illinois Fresh Start Demonstration

[2] Waiver requested as part of New Opportunities and New Responsibilities Welfare Reform Demonstration approved above.

PENDING

States Applications - 15 Applications from 15 States

Arkansas (Reduction in AFDC Birth Rates Project)

California (California Work Pays Demonstration Project)[3]

Colorado (Colorado Personal Responsibility Project)

Florida (Family Transition Program)

Georgia (Fulton Project)

Hawaii (Creating Work Opportunities for JOBS Families)

Massachusetts (Child Care Co-Payment Project)

Mississippi (A New Direction Demonstration Program)

New Hampshire (Earned Income Disregard Demonstration Project)

North Dakota (Early Intervention Program)

Ohio (Automobile Assets Disregard Project)

Oklahoma (Oklahoma's Learnfare Program)

Oregon (JOBS Plus Demonstration)

Oregon (Increased AFDC Motor Vehicle Limit Demonstration Project)

South Dakota (Strengthening South Dakota Families Initiative)

Texas (Two Parent Families Demonstration Project)

Washington (Success Through Employment Program)

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[3] Expands California Assistance Payments Demonstration Project (APDP)

## SUMMARY OF ACTIONS ON WAIVER APPLICATIONS - BUSH ADMINSTRATION

RECEIVED - 33 Applications from 19 States

APPROVED

States Applications - 22 Applications from 12 States

California (WRDP)
California (APDP) - replaced WRDP
California (AFIRM)

Georgia (Preschool Immunization Project)

Illinois (Youth Employment and Training Initiative)
Illinois (Homeless Families Support Program)
Illinois (Family Responsibility Project)
Illinois (Retrospective/Prospective Budgeting Project)
Illinois (Paternal Involvement Project)

Maryland

Michigan

Minnesota (New Vistas School Demonstration)

Missouri (Learnfare)
Missouri (21st Century)

New Jersey

Oregon

Utah

Virginia (Virginia Incentives to Advance Learning)[1]

Wisconsin (2 tier)
Wisconsin (Resources)
Wisconsin (Auto Limit)
Wisconsin (PFR)

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[1] Virginia's JOBS and Child Support waiver application, which the State applied for in 1991 before the State of the Union Address soliciting welfare reform waiver applications, was also approved in 1992.

DENIED OR NOT REQUIRED

| States | Applications - 1 Application from 1 State | |
|---|---|---|
| 1 | 23 | Illinois (Consolidated Intake Project) |

PENDING (as of last day Bush Adminstration)

| States | Applications - 10 Applications from 7 States |
|---|---|
| Arkansas | |
| Illinois | (One Step at a Time Project) |
| Illinois | (Relocation to Illinois Project) |
| Illinois | (Stepparent Encouragement Project) |
| Massachusetts | |
| Oklahoma | |
| South Carolina | |
| Vermont | |
| Wyoming | - Wyoming Relocation Grant |
| Wyoming | - Wyoming Limitation on Higher Education Demonstration |

Note: Later revised and consolidated as single application

NATIONAL GOVERNORS' ASSOCIATION

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Governor of Colorado
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Vice Chairman

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**MEMORANDUM**

August 4, 1993

**TO:** Executive Committee SAC

**FROM:** Barry Van Lare
Carl Volpe

**RE:** Waiver Simplifications Meeting
Friday, August 6th, 1:00 to 2:00 eastern

At the request of the President and Governors, NGA has been in discussions with the Department of Health and Human Services (HHS), since last April, to simplify the waiver process for Medicaid, Medicare, and other health initiatives under the Social Security Act. Attached for your consideration are two documents that result from those discussions. The first is a set of policy principles that will be used by the Administration for research and demonstration waivers (1115 waivers). The second paper addresses administrative, statutory, and regulatory changes for freedom of choice -1915(b) - and home- and community-based care - 1915(c) - waivers. Together these papers constitute tentative agreements as to how the waiver process should be simplified. These agreements are subject to the final approval of the Governors as well as the Secretary of the Department of Health and Human Services.

The next step is to provide an opportunity for the Executive Committee SAC to discuss these documents and consider next steps in their review and approval. To facilitate this process, we have tentatively scheduled a meeting/conference call for **Friday, August 6, 1993 in Conference Room 233, Hall of the States, from 1:00 to 2:00 p.m. eastern.** To participate through conference call, please call 202-296-3132 at the start of the meeting.

We are anxious to get your input as soon as possible as the Governors will be looking for a progress report or other indications of action in Tulsa. Please call Tess Moore at 202-624-5320 as soon as possible to let us know if you will be able to participate. Based on your responses, we will confirm the conference call by close of business Thursday. If you have any questions before the meeting, please call Carl Volpe at 202-624-7729.

attachment

[redacted] REDRAFT #5 - FOR DISCUSSION PURPOSES ONLY

# POLICY PRINCIPLES FOR SECTION 1115 WAIVERS

## Approval Criteria

Under Section 1115, the Department is given latitude, subject to the requirements of the Social Security Act, to consider and approve research and demonstration proposals with a broad range of policy objectives. The Department desires to facilitate the testing of new policy approaches to social problems. The Department will:

- o work with states to develop research and demonstrations in areas consistent with the Department's policy goals;
- o consider proposals that test alternatives that diverge from that policy direction; and
- o consider, as a criterion for approval, a state's ability to implement the research or demonstration project.

The Department reserves the right to disapprove or limit proposals on policy grounds. The Department also reserves the right to disapprove or limit proposals that create potential violations of civil rights laws or equal protection requirements or constitutional problems. The Department seeks proposals which preserve and enhance beneficiary access to quality services.

Within that overall policy framework, the Department is prepared to:

- o grant waivers to test the same or related policy innovations in multiple states, (replication is a valid mechanism by which the effectiveness of policy changes can be assessed);
- o approve waiver projects ranging in scale from reasonably small to state-wide or multi-state, and
- o consider joint Medicare-Medicaid waivers, such as those granted in the Program for All-Inclusive Care for the Elderly (PACE) and Social Health Maintenance Organization (SHMO) demonstrations, and Aid to Families with Dependent Children (AFDC)-Medicaid waivers.

## Duration

The complex range of policy issues, design methodologies, and unanticipated events inherent in any research or demonstration makes it very difficult to establish a single Department policy on the duration of 1115 waivers. However, the Department is committed, through negotiations with state applicants, to:

- o approve waivers of at least sufficient duration to give new policy approaches a fair test. The duration of waiver approval should be congruent with the magnitude and complexity of the project -- for example, large-scale statewide reform programs will typically require waivers of five years;

- o provide reasonable time for the preparation of meaningful evaluation results prior to the conclusion of the demonstration; and

- o recognize that new approaches often involve considerable start-up time and allowance for implementation delays.

The Department is also committed, when successful demonstrations provide an appropriate basis, to working with state governments to seek permanent statutory changes incorporating those results. In such cases, consideration will be given to a reasonable extension of existing waivers.

**Evaluation**

As with the duration of waivers, the complex range of policy issues, design methodologies, and unanticipated events also makes it very difficult to establish a single Department policy on evaluation. This Department is committed to a policy of meaningful evaluations using a broad range of appropriate evaluation strategies (including true experimental, quasi-experimental, and qualitative designs) and will be more flexible and project-specific in the application of evaluation techniques than has occurred in the past. This policy will be most evident with health care waivers. Within-site randomized design is the preferred approach for most AFDC waivers. The Department will consider alternative evaluation designs when such designs are methodologically comparable. The Department is also eager to ensure that the evaluation process be as unintrusive as possible to the beneficiaries in terms of implementing and operating the waived policy approach, while ensuring that critical lessons are learned from the demonstration.

**Cost Neutrality**

Our fiduciary obligations in a period of extreme budgetary stringency require maintenance of the principle of cost neutrality, but the Department believes it should be possible to maintain that principle more flexibly than has been the case in the past.

- o The Department will assess cost neutrality over the life of a demonstration project, not on a year-by-year

basis, since many demonstrations involve making "up-front" investments in order to achieve out-year savings.

- The Department also recognizes the difficulty of making appropriate baseline projections of Medicaid expenditures, and is open to development of a new methodology in that regard.

- In assessing budget neutrality, the Department will not rule out consideration of other cost neutral arrangements proposed by states.

- States may be required to conform, within a reasonable period of time, relevant aspects of their demonstrations to the terms of national health care reform legislation, including global budgeting requirements, and to the terms of national welfare reform legislation.

**Timeliness and Administrative Complexity**

The Department has begun to implement procedures that will minimize the administrative burden on the states and reduce the processing time for waiver requests. Among the steps taken by the Health Care Financing Administration (HCFA) so far are:

- expanding pre-application consultation with states;

- setting, and sharing with applicants, a well-defined schedule for each application, with established target dates for processing and reaching a decision on the application;

- maintaining a policy of one consolidated request for further information;

- sharing proposed terms and conditions with applicants before making final decisions; and

- establishing concurrent, rather than sequential, review of waivers by HCFA components, other units of the Department and the Office of Management and Budget. The success of this strategy is evident in the approval of the major health reform proposal from Hawaii in under three months. The Department is committed to making an expedited waiver process the rule and not the exception to the rule.

HCFA will complete the following steps to simplify and streamline the waiver process:

- expand technical assistance activities to the states;
- reallocate internal resources to waiver projects; and
- develop multi-state waiver solicitations in areas of priority concern, including integrated long-term care system development, services for adolescents, and services in rural areas.

Many of these procedures have been in place for some time for AFDC waivers at the Administration for Children and Families (ACF), where response times are usually short. ACF will continue to work to streamline the AFDC waiver process and respond to state concerns.

Discussion Draft
August 4, 1993

# WAIVER SIMPLIFICATIONS
## for
## Managed Care and Home- and Community-Based Care

### Status Report
### on
### Discussions between the
### National Governors' Association and the Clinton Administration

## Background

At a meeting with the nations Governors on February 1, 1993, President Clinton committed his administration to simplifying the Medicaid waiver process and directed the Department of Health and Human Services (HHS) to work with the National Governors' Association to produce a list of streamlining recommendations that would achieve that goal. He also directed the Department to reopen negotiations on the provider tax and voluntary contributions regulations that had been issued in November 1992. Discussions between NGA and the Department began immediately on the provider tax and voluntary contributions regulations and were completed in May. The discussions on waiver streamlining began in late March and were expanded shortly thereafter to include a long-standing list of concerns with the Medicaid program that had been sent to the President by Governors shortly after his election.

The following is a summary of tentative agreements for streamlining freedom of choice or managed care waivers (1915(b) waivers) and the home- and community-based waivers (1915(c) waivers) . These agreements are subject to the final approval of the Governors as well as the Secretary of the Department of Health and Human Services.

Within the month, Governors will receive a document that describes in more detail the tentative agreements in this document as well as all other issues discussed by the negotiating teams. As with these agreements, the agreements in that larger document are subject to the final approval of the Governors and the Secretary.

## Waiver Review Process and Technical Assistance

States have long complained about the Health Care Financing Administration (HCFA) bureaucracy. They have charged that the bureaucracy is unable to respond quickly and responsibly to state requests for technical assistance in the development of waivers. They have argued that the waiver application process is complex, and the review process is inflexible. These issues were raised and discussed at length and in detail. The Department expressed a sincere interest in developing processes that are more responsive to states. And both sides agreed that in some cases, states misinterpreted or were misinformed of Departmental policies. The Department proposes the following.

- HHS reaffirms its commitment to abide by existing law and make only one formal request for additional information on waivers submitted for consideration by states.

- HHS will improve communications with states to minimize the need for formal requests for information on waiver applications, including
  - making increased use of early informal consultation with states to resolve issued of waivers under review;
  - accepting information on waivers in facsimile form; and
  - continuing to review draft submissions of waiver requests in an effort to assist states prior to the formal submission of waiver proposals.

- HHS will improve its technical assistance by
  - developing technical assistance guides on areas of specific interest in waivers (e.g. approaches to quality assurance, client assessment instruments, etc.):
  - providing technical assistance during waiver development so that issues can be resolved prior to the submission of a waiver request;
  - awarding an outside contract to develop a clearinghouse of information on approved waivers; and
  - providing training to regional and central office staff to ensure a consistent approach to waiver issues.

The NGA team believes that these changes will help states with waivers. It must be noted, however, that these proposals will work only if the Department devotes resources that have heretofore been unavailable to the Medicaid bureau. Moreover, these changes will require additional training of regional staff. Without sufficient resources and commitment to such training, the states cannot expect to see the results agreed to above.

**Home- and Community-based Care Waivers**

Background.

Home- and community-based care (HCBC) waivers are authorized under section 1915(c) of the Social Security Act. This section of the Act allows states to offer a variety of home- and community-based health and supportive services to beneficiaries whose functional impairments qualify them for nursing home care. In providing such community based services, states may not spend more that what it would have cost to provide services to the beneficiary in a nursing home (test of cost neutrality). HCBC waivers have an initial duration of three years and states may be granted an unlimited number of five year extensions.

Administrative/Regulatory Changes.

Preparing waiver applications and waiver renewals has been a major source of difficulty for states. Not only have the applications been complex, but it has been difficult for states to determine if they had met all of the components for a successful application review. To address this problem, HCFA has recently developed a streamlined format that guides states as they prepare applications and renewals. The refinement of this streamlined format is ongoing and

- HCFA will work with the HCBC technical assistance group (a standing committee of representatives of state Medicaid agencies) to further refine the streamlined format for both waiver applications and waiver renewals.

As a condition of HCBC waiver approval, states are required to have an independent assessment of their waiver performance. States have argued that an independent assessment is unnecessary and that assessments done within state agencies are more than sufficient.

- HHS considered the states' arguments and will eliminate the requirement for independent assessment, while allowing it as a state option.

There is a trend among states to develop HCBC waivers for specific beneficiary groups. And while states recognize their inherent differences in developing such waivers, standard or prototype waiver applications would be of great help.

- In cooperation with states, HHS has agreed to develop prototype and renewal waiver formats for the following target groups -- traumatic brain injury, AIDS, medically fragile children.

*The "Cold Bed" Test*. The single biggest problem for states in developing the HCBC waiver application and renewal is meeting the requirements of the "cold bed test". Simply stated, the cold bed test says that a state must demonstrate that an institutional bed will not be used (i.e." go "cold") for each individual served under the HCBC waiver. The cold bed test is used to assure that the waiver remains cost neutral to the federal government and is thought to keep down the overall growth of long-term care costs in Medicaid. States must submit extensive quantitative information to demonstrate that the test has been met.

- HHS has had more than ten years of experience with the test and after careful review has decided to eliminate it from the waiver application process.

- Consistent with the elimination of the "cold bed" test, HHS will substantially reduce the evidentiary paperwork necessary to demonstrate cost neutrality. However, demonstration of cost neutrality is still a requirement for these waivers.

The administrative and regulatory changes described above will greatly simplify the HCBC waiver process. In particular, the elimination of the cold bed test -- the single greatest problem with HCBC waivers -- is monumental in its impact to simplify these waivers.

Statutory Changes

The Governors requested the following,

1. An option to convert HCBC waivers to state plans after having demonstrated that the waiver is effective.
2. An option to adopt another state's effective waiver as a part of their own state plan without submitting a waiver application, and .
3. An option to provide home and community based care as a regular plan amendment.

Any decision to make statutory changes that permit states to convert HCBC waivers to plan amendments must be considered in light of the potential fiscal consequences to

states. While Medicaid is an entitlement program, services offered under the HCBC waiver program are available only to those individuals served by the waiver and states have the authority to determine how many people will receive the services irrespective of the need. Any service or constellation of services offered under a state plan, however, must be available to any individual who meets the criteria for that service, and states cannot limit enrollment. There is a significant unmet need for home- and community-based services in most, if not all, states. While it is true that legislation may be crafted to offer home- and community- based care to specific beneficiary groups, both NGA and the Department agree that if home and community based care is offered as a state plan option, states would have significant financial exposure.

While the Governors have adopted policy that supports community based long-term care, they have not considered the policy and fiscal implications of an entitlement to such services. NGA and the Department negotiators agree that statutory changes should be deferred at this time. The Department has indicated that this issue may be revisited after states have had experience with waivers not subject to the cold bed test.

**Freedom of Choice Waivers**

Background.

Freedom of choice (FOC) waivers are authorized under section 1915(b) of the Social Security Act. This section allows states to limit the choice of providers of health care for a Medicaid beneficiary. It is through this freedom of choice limitation that states are able to mandate enrollment of Medicaid beneficiaries in managed care programs. FOC waivers must be cost neutral and have an initial duration of two years. Sates may be granted an unlimited number of two year extensions.

Administrative/Regulatory Changes

Over the last couple of years, HCFA has developed and will continue to implement administrative changes that have significantly simplified the application and renewal process for FOC waivers. Specifically,

- as the Governors requested, HHS will allow states to use the experiences of other states in support of their initial waiver application. States may demonstrate that a waiver application will be cost effective by using the cost effectiveness experience of HCFA approved managed care plans in other states that have demonstrated cost containment in actual practice.

- States have been using a streamlined format for primary care case management waiver since November 1991 and for renewal of primary care case management waivers since June 1992. Under a primary care case management waiver, the beneficiary is assigned a gate-keeper physician who must approve hospitalizations and specialty care. However, all providers are paid on a fee-for-service basis.

- HHS just recently released a streamlined format for waiver applications that contain risk sharing arrangements. In risk sharing arrangements, the provider assumes a

some or all of the financial risk of care by accepting a pre-determined payment for beneficiaries. (A traditional HMO is an example of a risk bearing provider).

Statutory Modifications to Waivers

The most significant barriers to states in establishing managed care programs under Medicaid waivers are statutory. If the waiver process is to continue, the following statutory changes were requested by the Governors and have been agreed to by HHS.

- HHS would support legislation that extends the period of initial operation from two to three years and that renewals should be for five years.

- HHS would support legislation that allows states to require a beneficiary to enroll in an HMO in a rural area, if there in only one HMO available to serve these beneficiaries. This provision would facilitate the establishment of Medicaid managed care in rural areas.

- HHS would support legislation that allows Medicaid beneficiaries to continue receiving services through a managed care provider for one month if the client loses their eligibility status because they were late in submitting their income reports. This change gives the managed care provider some stability when a client loses coverage because of complex eligibility rules.

*The "75/25" Rule*. Currently under Medicaid, beneficiaries cannot be required to receive care in an HMO if more than 75 percent of enrollees at that HMO are Medicaid recipients. This prohibition was enacted because it was thought that an HMO with more than 75 percent of its enrollees might reduce its quality of care, that is, this provision was established as a surrogate quality measure. To this date, there is no empirical evidence to support this contention, yet, the provision remains in statute. The Governors would like this provision repealed.

- This issue is still under discussion.

*Elimination of Waivers*. If Congress were to pass all of the statutory changes just described, states would still be required to submit waiver applications to establish mandatory Medicaid managed care programs. Governors would prefer and requested that managed care be taken out from under the waiver process and established as a regular plan amendment option.

- This issue is still under discussion.

**National Governors' Association Team**

Carl Volpe, NGA
Kathi Glynn, Ohio Medicaid
Donna Checkett, Missouri Medicaid
Brenda Bacon, New Jersey Governor's Office
Andy Laurent, South Carolina Medicaid
DeAnn Friedholm, Texas Medicaid
Kevin Piper, Wisconsin Medicaid
Lee Partridge, State Medicaid Directors' Association

cc: K. WAY

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

waiver file

August 11, 1993

MEMORANDUM FOR: Bruce Vladeck

FROM: Nancy-Ann Min NAM

SUBJECT: Home- and Community-Based Care and Freedom-of-Choice Waivers

As you know, Kathi Way advised me on Friday of the discussions and tentative agreement between HCFA and NGA concerning proposed policy changes to home- and community-based care and freedom-of-choice waivers. This memorandum outlines my initial observations about the proposals, based on information we received Friday afternoon. As I have said many times, OMB is committed to streamlining this waiver process to the greatest extent possible, consistent with our responsibility to collect sufficient data to review the costs and benefits of each waiver application effectively. I should also state, however, that it is my understanding that no one from OMB was involved in your discussions with the NGA about changes to the home- and community-based care and freedom-of-choice waiver process (in contrast with the discussions concerning the §1115 waivers, in which we were fully involved). Some of the changes HCFA and NGA have discussed involve substantial potential costs, and I am concerned that your discussions have proceeded to such an advanced stage without our being consulted.

**Home- and Community-Based Care Waivers.** Significant additional costs are involved in removing the so-called "cold-bed" test (the HCFA Actuary estimates $500 to $800 million over five years). I am concerned that these costs could create entitlement cap problems under Executive Order 12857, to the extent that the additional spending for liberalized home and community-based care waivers is not reflected in current Medicaid baseline projections. Given the advanced stage of your negotiations with NGA, I will not recommend that OMB oppose the elimination of the "cold-bed" test. As we have discussed, however, the new entitlement cap executive order provides one more reason why we must avoid this situation in the future if we do not want to place the Administration in the embarrassing position of breaching the caps.

Eliminating the "cold-bed" test will require OMB review of §1915 (c) waivers to ensure that additional Federal costs are not being incurred. Accordingly, the formal information request for §1915 (c) waivers should reflect OMB as well as HCFA concerns. To create a smooth, cooperative process, OMB and HCFA should review these waivers on a parallel track -- consistent with the proposed approach for §1115 waivers.

We believe that HHS should also consider a uniform needs assessment process for §1915 (c) waivers that is nationally consistent. Requiring all States to use the same standards (e.g., limitations in at least three activities of daily living) would ensure that

home- and community-based services are targeted to the individuals who truly need them. In addition, these standards would be consistent with those outlined in the President's health care reform proposals.

I understand that HCFA has deferred consideration of NGA's request to convert §1915 (c) waivers to State plan options. I agree with this decision; such a change would substantially reduce Federal oversight of these programs and could lead to significant increases in Medicaid spending.

**Freedom-of-Choice Waivers.** I do not oppose allowing States to use the cost-effectiveness experience of other States in an initial §1915 (b) waiver application. Such experience has some validity, but I am concerned that it should not be the only data or analysis necessary to gain waiver approval.

In addition, I would support changes that encourage Medicaid managed care, such as eliminating the 75/25 rule or converting §1915 (b) waivers to State plan options. Nevertheless, I believe that an Administration position on these changes should be carefully discussed and negotiated with Congressional leadership before commitments are made to the NGA.

cc: Ken Apfel
John Monahan
Kathi Way

WAIVERS

DATE: 8-20-93

TO: Kathi Way, Domestic Policy Council
John Monahan, DHHS
Richard Tarplin, DHHS, ASL
Canta Pian, DHHS, ASPE
Steve Hagy, DHHS, ASMB
Richard Bavier, OMB

FROM: Paul Bordes
Office of Policy and Evaluation
Administration for Children and Families
401-9224

RE: Weekly Tracking Update - Welfare Reform: Section 1115 Waiver Activity

Please Deliver to appropriate addressee.

Cover plus 10 pages

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| Washington | Legislation involves methods of calculating benefits and elimination of the 100-hour rule for AFDC-UP cases. | ACF Regional Office staff indicate that State legislation which would require waivers is being considered. 6/24 ACF had telephone call with state staff to discuss application procedures. |

AUG-20-1993 10:10 FROM HHS/ACF/POLICY&EVALUATION TO WH/K. WAY P.11/11

AUG-20-1993 18:18 FROM HHS/ACF/POLICY&EVALUATION TO WH/K. WAY P.10/11

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| Kansas | Would eliminate 100-hour and work history rules for AFDC-UP cases, make case eligibility dependent on experience to a self-sufficiency plan, increase earned income disregards, extend medicaid transition benefits, exempt assets of one vehicle, extend CWEP and OJT activities to include private businesses, provide case incentives for staying in school, establish coordinated teen pregnancy prevention effort and other initiatives targeting youth at-risk of long-term welfare dependency, guarantee payment of child support, seek voluntary acknowledgement of paternity, allow fathers of unborn child to receive assistance if they acknowledge paternity, establish electronic benefit transfer (EBT). | Proposal being developed by State. |
| Massachusetts | | Letter received from congressional delegation supporting earned income disregard waiver; however, we have not received a request from the state. ACF responded to State's letter of intent that approval would be subject to cost neutrality. |
| North Dakota | Would provide incentives to encourage participation in education and training activities. | Proposal being developed by State. |
| Texas | Would apply earned income against the need standard rather than the payment standard. | ACF Regional Office staff indicate that State staff are considering submission of a waiver application. |

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| Minnesota | Would increase vehicle issue limits and earned income disregards for students. | Plans to apply for waivers. |
| Mississippi | | Proposal being developed by State. State representatives met with ACF staff 7/28. |
| Nevada | | Contacts received from state; application expected. |
| New Hampshire | AFDC applicants and recipients would have the first $200 plus 1/2 the remaining earned income disregarded. | State called 8/11 to seek guidance and assistance. **State submitted draft application 8/13 for comment.** |
| Pennsylvania | The Penn. Governor's task force has recommended a number of new provisions designed to help AFDC families move toward work and independence. These provisions would establish mutual responsibility, eliminate disincentives to work, strengthen families and support children, promote economic independence with a number of disregards and intensive case management, and simplify the process. | Program presented by Penn. in a meeting on 7/13 with ACF Staff. Application expected. |

**ANTICIPATED**

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| Connecticut | Statewide, would remove deprivation requirement in AFDC to allow children to receive assistance even if living with both parents, increase resource and vehicle asset limits and increase child support pass through to $100. In selected pilot sites, would decrease AFDC cash benefits and cash-out Food Stamps, impose a time limit on eligibility, create a child support assurance system, increase earned income disregards, establish even higher asset limits, and extend medical, child care and case management supports after a case is made ineligible due to earnings. | State officials met with ACF staff on 7/21 to discuss applying for waivers. |
| Florida | With some exceptions, AFDC benefits will not be received for more than 24 months in any 60-month period by applicants and current recipients. Would also replace the current $90 and $30 and one-third disregards with a single, non-time-limited disregard of $200 plus one-half reminder; eliminate the 100-hour rule, the required quarters of work, and (on a case-by-case basis) the 6-month time limit requirements in the AFDC-UP program. Increase transitional Medicaid and child care benefits; disregard the income of a stepparent whose needs are not included in the assistance unit for the first 6-months of receipt of public assistance, raise the asset limit to $5,000 plus a vehicle of reasonable worth used primarily for self-sufficiency purposes. Require school conferences, regular school attendance, and immunizations; and lower age of child for JOBS exemption to 6-months. | Draft application received and analyzed by ACF. Oral comments to State on 8/4. Formal application expected soon. |

AUG-20-1993 18:17 FROM HHS/ACF/POLICY&EVALUATION TO WH/K. WAY P.08/11

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| California | Implement Cal. Learn, a Learnfare program that provides both bonuses and sanctions. Increase the resource limit to $2,000 and the automobile exemption to $4,500 and allow savings of up to $5,000 in restricted accounts. Create an Alternative Assistance Program that allows AFDC applicants and recipients with earned income to choose Medicaid and Child Care Assistance in lieu of a cash grant. Allow for alternative to the current systems of monthly reporting of income and family circumstances, AFDC annual redetermination, and Food Stamp recertifications. Test one or more modifications to the AFDC and Food Stamp requirements for verification of eligibility information. Modify AFDC and Food Stamp program requirements to streamline eligibility determinations by making eligibility requirements compatible between the two programs. Provide supplemental child care payments to working AFDC recipients who have child care costs in excess of the child care income disregard amount. Implement multiple reforms to the GAIN (JOBS) program. Conduct a demonstration, in up to 3 counties, of alternatives to the current monthly reporting system, AFDC redetermination, and Food Stamp recertification for recipients of Alternative Assistance. | State officials met with ACF Staff on 7/19 on plans to apply for additional waivers. |

AUG-20-1993 18:17 FROM HHS/ACF/POLICY&EVALUATION TO WH/K. WAY P.07/11

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| Wyoming | Require able-bodied AFDC applicants and recipients to work or perform community service, require school attendance for those 16 and over, change sanction penalties for non-compliance with work requirements, increase resource limit for employed families, limit or eliminate AFDC benefits in certain cases where recipient is in post-secondary ed. program, provide JOBS to non-custodial parents court-ordered to participate, provide lesser of benefit for Wyoming or prior state of residence for 12 mo. for new residents. | Appl. Rec'd 5/20/93 | **Conference call with the State 8/19 to resolve remaining issues. Final decision package prepared 8/20 to go to the Secretary.** |
| PRE-APPLICATION CONTACT | | | |
| Alaska | Would repeal 100-hour role for AFDC-up; expand working incentives; increase resource and vehicle asset limit; eliminate "new job" requirement for work supplementation and extend transitional medicaid benefits. | | ASPE official met with State Staff 6/22. |

AUG-20-1993 18:16 FROM HHS/ACF/POLICY&EVALUATION TO WH/K. WAY P.06/11

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| Virginia | 1) Up to 600 participants would voluntarily exchange AFDC/Food Stamp benefits for jobs expected to pay $15-18,000/yr. Training stipends equal to AFDC and FS benefits would be paid initially. 2) Provide additional 24 mo. child care and Medicaid transition benefits. 3) Establish a child support insurance program for those leaving AFDC due to earnings. 4) Disregard step-parent income when AFDC recipient marries; increase resource limit to $5,000 for education and housing purposes; extend AFDC eligibility to full-time students until age 21. | Appl. Rec'd 7/13/93 | Analysis paper sent to State 8/12. **Conference call with State 8/20. Expect submission of clarifications; ACF will begin to draft Terms and Conditions.** |
| Wisconsin | Provides a maximum of 4 years eligibility with cash benefits for up to 2 years and 12 mo. transitional medical and child care benefits; no cash benefits available for a period of 36 months after last month in which a demonstration benefit was paid; cash-out food stamps and make part of the benefit; education and training services provided; CWEP placements or public job required for those who remain unemployed; changes JOBS exemptions; no additional benefit for children born to AFDC families; child support payments will be directed to the family and counted as income; fixed period of benefit calculation. | Appl. Rec'd 7/14/93 | Conference call with State 8/10 to discuss continuing issues. Addt'l submittal by the State 8/11. Oral comments on submittal to State 8/12. **Draft Terms and Conditions (excluding Implementation section) sent to State 8/20.** |

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| Illinois | Provide incentives for school attendance; require participation in a Community Service Corps (CSC) for those with children under 3; provide wage subsidy for up to 6 mo. after completing CSC. | Appl. Rec'd 10/7/92 | These waivers were tabled by the State for their reconsideration; awaiting state action. |
| Massachusetts | Require JOBS participants to pay co-payment for child care. | Appl. Rec'd 1/14/93 | Application distributed to Federal reviewers. **Analysis paper sent to State 8/13.** |
| Oklahoma | Require school attendance of AFDC recipients aged 13-18. | Appl. Rec'd 12/28/92 | Draft Terms and Conditions sent to State 7/16 for their review. No response to date. |
| South Carolina | Provides for work experience at for-profit sites, disregard of training allowances, changes to earnings disregards. | Appl. Rec'd 12/9/92 | Sent State 7/20 analysis paper regarding issues needing further discussion or clarification. **Telephone call with state staff indicate that this is not currently a priority.** |
| South Dakota | Time limit cash benefits for 24 mo. for those assigned to employment-readiness track and for 60 mo. for those in training track followed by required employment or volunteer service; total family ineligibility for 3 mo. for voluntarily quitting employment; provide one month transitional allowance after case closes due to earnings; disregard earned income and other assets of full-time students. | Appl. Rec'd 8/6/93 | Application distributed to Federal reviewers. **Analysis paper prepared to be sent to Federal reviewers.** |

AUG-20-1993 10:15 FROM HHS/ACF/POLICY&EVALUATION TO WH/K. WAY P.04/11

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| Arkansas | Eliminate increased AFDC benefits for additional children; provide special counseling to 13-17 yr olds and require participation in educational activity. | Appl. Rec'd 1/14/93 | **Issues analysis paper prepared 8/20 to send to Federal reviewers.** |
| Colorado | Establish a 2-year time limitation sanction for non-cooperative employable AFDC adults; consolidate AFDC, Food Stamp, and Child Care benefits into a single comprehensive benefits package; disregard a portion of all earned income, replacing all current income disregards; require all AFDC households with children under the age of 24 months to have current immunization, failure to comply will result in a financial sanction; provide incentives to participants who graduate from high school or obtain a GED; exempt the asset value of one care; and increase the resource limit to $5,000 for those families with an able-bodied adult who is employed or has been employed within the last 6 months. | Appl. Rec'd 6/30/93 | Analysis paper sent to State 8/9. Conference call scheduled for 8/17. **Draft Terms and Conditions sent to Federal reviewers 8/18.** |
| Georgia | Provide family planning and parenting services; eliminate increased AFDC benefit for additional children; require able-bodied adults to accept full-time employment if they are not caring for children under 14. | Appl. Rec'd 5/18/93 | Analysis paper sent to State 8/11. **Terms and Conditions drafted 8/19 to be sent to Federal reviewers.** |

| STATE | INITIATIVE | KEY DATES | COMMENTS |
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| **APPROVED** | | | |
| Iowa | Multi-faceted proposal including: changes in income disregards, increased resource limits, limiting JOBS exemptions, extending child care transitional benefit to 24 months, requiring most parents to develop self-sufficiency plan which includes individually based time limit on public assistance; those refusing to develop a plan can be terminated from AFDC and cannot re-apply for 6 months. | Appl. Rec'd 4/29/93<br><br>Appl. Approved 8/13/93 | |
| Vermont | Require participation in subsidized employment after 30 mo for AFDC and 15 mo for AFDC-UP cases, broaden AFDC-UP eligibility, change earnings disregards, change JOBS exemptions, disburse child support to AFDC family, require most minors to live in supervised setting, extend eligibility in child-only cases. | Appl. Rec'd 10/27/92<br><br>Appl. Approved 4/12/93 | |
| **DENIED** | | | |
| Illinois | Would have paid lesser of previous State of Illinois benefit for 12 months for new residents. | Appl. Rec'd. 10/7/92<br>Appl. Den'd. 8/3/93 | |

| STATE | INITIATIVE | KEY DATES | COMMENTS |
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| **APPROVED** | | | |
| **Iowa** | Multi-faceted proposal including: changes in income disregards, increased resource limits, limiting JOBS exemptions, extending child care transitional benefit to 24 months, requiring most parents to develop self-sufficiency plan which includes individually based time limit on public assistance; those refusing to develop a plan can be terminated from AFDC and cannot re-apply for 6 months. | Appl. Rec'd 4/29/93<br>Appl. Approved 8/13/93 | |
| **Vermont** | Require participation in subsidized employment after 30 mo for AFDC and 15 mo for AFDC-UP cases, broaden AFDC-UP eligibility, change earnings disregards, change JOBS exemptions, disburse child support to AFDC family, require most minors to live in supervised setting, extend eligibility in child-only cases. | Appl. Rec'd 10/27/92<br>Appl. Approved 4/12/93 | |
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| Arkansas | Eliminate increased AFDC benefits for additional children; provide special counseling to 13-17 yr olds and require participation in educational activity. | Appl. Rec'd 1/14/93 | Discussing potential modification. ACF received letter from State 8/13 requesting action on their submission. |
| Colorado | Establish a 2-year time limitation sanction for non-cooperative employable AFDC adults; consolidate AFDC, Food Stamp, and Child Care benefits into a single comprehensive benefits package; disregard a portion of all earned income, replacing all current income disregards; require all AFDC households with children under the age of 24 months to have current immunization, failure to comply will result in a financial sanction; provide incentives to participants who graduate from high school or obtain a GED; exempt the asset value of one care; and increase the resource limit to $5,000 for those families with an able-bodied adult who is employed or has been employed within the last 6 months. | Appl. Rec'd 6/30/93 | Analysis paper sent to State 8/9. Conference call scheduled for 8/17. |
| Georgia | Provide family planning and parenting services; eliminate increased AFDC benefit for additional children; require able-bodied adults to accept full-time employment if they are not caring for children under 14. | Appl. Rec'd 5/18/93 | Decision memorandum sent to Secretary on family cap on benefits. Issue discussed by Senior Department Staff in briefing with Deputy Secretary on 8/4. Analysis paper sent to State 8/11. |

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| Illinois | Provide incentives for school attendance; require participation in a Community Service Corps (CSC) for those with children under 3; provide wage subsidy for up to 6 mo. after completing CSC. | Appl. Rec'd 10/7/92 | These waivers were tabled by the State for their reconsideration; awaiting state action. |
| Massachusetts | Require JOBS participants to pay co-payment for child care. | Appl. Rec'd 1/14/93 | Application distributed to Federal reviewers. Analysis paper being prepared. |
| Oklahoma | Require school attendance of AFDC recipients aged 13-18. | Appl. Rec'd 12/28/92 | Draft Terms and Conditions sent to State 7/16 for their review. No response to date. |
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| Virginia | 1) Up to 600 participants would voluntarily exchange AFDC/Food Stamp benefits for jobs expected to pay $15-18,000/yr. Training stipends equal to AFDC and FS benefits would be paid initially. 2) Provide additional 24 mo. child care and Medicaid transition benefits. 3) Establish a child support insurance program for those leaving AFDC due to earnings. 4) Disregard step-parent income when AFDC recipient marries; increase resource limit to $5,000 for education and housing purposes; extend AFDC eligibility to full-time students until age 21. | Appl. Rec'd 7/13/93 | Analysis paper sent to State 8/12. |
| Wisconsin | Provides a maximum of 4 years eligibility with cash benefits for up to 2 years and 12 mo. transitional medical and child care benefits; no cash benefits available for a period of 36 months after last month in which a demonstration benefit was paid; cash-out food stamps and make part of the benefit; education and training services provided; CWEP placements or public job required for those who remain unemployed; changes JOBS exemptions; no additional benefit for children born to AFDC families; child support payments will be directed to the family and counted as income; fixed period of benefit calculation. | Appl. Rec'd 7/14/93 | Decision memo sent to Deputy Secretary regarding time-limited welfare demonstration and issue was discussed by Senior Department Staff in briefing with Deputy Secretary on 8/4. Analysis paper sent to State 8/9. Conference call with State 8/10 to discuss continuing issues. Addt'l submittal by the State 8/11. Oral comments on submittal to State 8/12. |

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| Wyoming | Require able-bodied AFDC applicants and recipients to work or perform community service, require school attendance for those 16 and over, change sanction penalties for non-compliance with work requirements, increase resource limit for employed families, limit or eliminate AFDC benefits in certain cases where recipient is in post-secondary ed. program, provide JOBS to non-custodial parents court-ordered to participate, provide lesser of benefit for Wyoming or prior state of residence for 12 mo. for new residents. | Appl. Rec'd 5/20/93 | State desired approval by July 1. Draft terms and condition sent to State 7/8. Subsequent negotiations proceeding; conference calls conducted; additional materials submitted by the State 8/11. As of 8/13 only one issue to resolve. Expect decision early next week. |
| **PRE-APPLICATION CONTACT** | | | |
| Alaska | Would repeal 100-hour role for AFDC-up; expand working incentives; increase resource and vehicle asset limit; eliminate "new job" requirement for work supplementation and extend transitional medicaid benefits. | | ASPE official met with State Staff 6/22. |

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| California | Implement Cal. Learn, a Learnfare program that provides both bonuses and sanctions. Increase the resource limit to $2,000 and the automobile exemption to $4,500 and allow savings of up to $5,000 in restricted accounts. Create an Alternative Assistance Program that allows AFDC applicants and recipients with earned income to choose Medicaid and Child Care Assistance in lieu of a cash grant. Allow for alternative to the current systems of monthly reporting of income and family circumstances, AFDC annual redetermination, and Food Stamp recertifications. Test one or more modifications to the AFDC and Food Stamp requirements for verification of eligibility information. Modify AFDC and Food Stamp program requirements to streamline eligibility determinations by making eligibility requirements compatible between the two programs. Provide supplemental child care payments to working AFDC recipients who have child care costs in excess of the child care income disregard amount. Implement multiple reforms to the GAIN (JOBS) program. Conduct a demonstration, in up to 3 counties, of alternatives to the current monthly reporting system, AFDC redeterimination, and Food Stamp recertification for recipients of Alternative Assistance. | State officials met with ACF Staff on 7/19 on plans to apply for additional waivers. |

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| Connecticut | Statewide, would remove deprivation requirement in AFDC to allow children to receive assistance even if living with both parents, increase resource and vehicle asset limits and increase child support pass through to $100. In selected pilot sites, would decrease AFDC cash benefits and cash-out Food Stamps, impose a time limit on eligibility, create a child support assurance system, increase earned income disregards, establish even higher asset limits, and extend medical, child care and case management supports after a case is made ineligible due to earnings. | State officials met with ACF staff on 7/21 to discuss applying for waivers. |
| Florida | With some exceptions, AFDC benefits will not be received for more than 24 months in any 60-month period by applicants and current recipients. Would also replace the current $90 and $30 and one-third disregards with a single, non-time-limited disregard of $200 plus one-half reminder; eliminate the 100-hour rule, the required quarters of work, and (on a case-by-case basis) the 6-month time limit requirements in the AFDC-UP program. Increase transitional Medicaid and child care benefits; disregard the income of a stepparent whose needs are not included in the assistance unit for the first 6-months of receipt of public assistance, raise the asset limit to $5,000 plus a vehicle of reasonable worth used primarily for self-sufficiency purposes. Require school conferences, regular school attendance, and immunizations; and lower age of child for JOBS exemption to 6-months. | Draft application received and analyzed by ACF. Oral comments to State on 8/4. Formal application expected soon. |

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| Minnesota | Would increase vehicle issue limits and earned income disregards for students. | Plans to apply for waivers. |
| Mississippi | | Proposal being developed by State. State representatives met with ACF staff 7/28. |
| Nevada | | Contacts received from state; application expected. |
| New Hampshire | AFDC applicants and recipients would have the first $200 plus 1/2 the remaining earned income disregarded. | State called 8/11 to seek guidance and assistance in preparing application for waivers following legislation enactment of provision. |
| Pennsylvania | The Penn. Governor's task force has recommended a number of new provisions designed to help AFDC families move toward work and independence. These provisions would establish mutual responsibility, eliminate disincentives to work, strengthen families and support children, promote economic independence with a number of disregards and intensive case management, and simplify the process. | Program presented by Penn. in a meeting on 7/13 with ACF Staff. Application expected. |

**ANTICIPATED**

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| Kansas | Would eliminate 100-hour and work history rules for AFDC-UP cases, make case eligibility dependent on experience to a self-sufficiency plan, increase earned income disregards, extend medicaid transition benefits, exempt assets of one vehicle, extend CWEP and OJT activities to include private businesses, provide case incentives for staying in school, establish coordinated teen pregnancy prevention effort and other initiatives targeting youth at-risk of long-term welfare dependency, guarantee payment of child support, seek voluntary acknowledgement of paternity, allow fathers of unborn child to receive assistance if they acknowledge paternity, establish electronic benefit transfer (EBT). | Proposal being developed by State. |
| Massachusetts | | Letter received from congressional delegation supporting earned income disregard waiver; however, we have not received a request from the state. ACF responded to State's letter of intent that approval would be subject to cost neutrality. |
| North Dakota | Would provide incentives to encourage participation in education and training activities. | Proposal being developed by State. |
| Texas | Would apply earned income against the need standard rather than the payment standard. | ACF Regional Office staff indicate that State staff are considering submission of a waiver application. |

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| Washington | Legislation involves methods of calculating benefits and elimination of the 100-hour rule for AFDC-UP cases. | ACF Regional Office staff indicate that State legislation which would require waivers is being considered. 6/24 ACF had telephone call with state staff to discuss application procedures. |

Waiver file

August 15, 1993

Health–*A changing world*
Office of Management and Budget
Executive Office of the President
Washington, DC 20503

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| Please route to: | Nancy-Ann Min | Decision needed | ___ |
| | | Please comment | ___ |
| | | For your information | X |
| | | Per your request | ___ |
| | | Take necessary action | ___ |
| Subject: | California Managed Care Waiver | With informational copies for: DK, VZ, CR, Chron | |
| From: | Nicole Sanderson NS | Phone: | 202/395-4926 |
| | | Fax: | 202/395-3910 |
| | | Room: | #7002 |

We have advised HCFA that we have no objections to granting a freedom-of-choice waiver request for California's "Geographic Managed Care."

California plans to mandate that categorically and medically needy AFDC recipients in Sacramento county receive Medicaid medical and dental services only from specified HMOs or prepaid health plans (PHPs). Recipients who have Medicare coverage, reside in a nursing home or ICF/MR, or whose eligibility period is retroactive would not have to receive services through these health plans. The State plans to enroll approximately 127,000 Medicaid recipients in the waiver program.

The State has contracted with three HMOs, four PHPs, and three dental PHPs to provide care for waiver program recipients. The plans would receive capitated payments on a prospective basis for the services they cover.

California expects to reduce overall costs for waiver participants by $268 million over the two-year waiver period.

cc: Kathi Way

NEM—
Will put a copy in your waiver notebook.
—CR

August 25, 1993

Health–*A changing world*
Office of Management and Budget
Executive Office of the President
Washington, DC 20503

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| Please route to: | Nancy-Ann Min | Decision needed | ___ |
| | | Please comment | ___ |
| | | For your information | X |
| | | Per your request | ___ |
| | | Take necessary action | ___ |
| Subject: | Missouri Managed Care Waiver | With informational copies for: DK, VZ, NS, Chron | |
| From: | Cheri Rice CR | Phone: | 202/395-4926 |
| | | Fax: | 202/395-3910 |
| | | Room: | #7002 |

Today we informed HHS that OMB had no concerns with granting a freedom-of-choice waiver modification request for Missouri.

Missouri's current waiver program, the Managed Health Care Program, requires AFDC recipients to receive care from either a prepaid health plan or a physician sponsor. The physician sponsors are paid on a fee-for-service basis for services provided, plus a $1.50 per month per recipient case management fee. The prepaid health plans are paid on a capitated basis. The program operates in Jackson County, which includes Kansas City. The waiver was originally approved in 1987 and is scheduled for renewal in May, 1994.

Missouri wishes to expand the program to include two additional mandatory Medicaid eligibility groups:

- children under the age of six, in families with incomes up to 133% of poverty; and,
- children born after September 30, 1983, up to age 19, in families with incomes up to 100% of poverty.

Missouri estimates annual Federal savings of approximately $2 million under the current waiver and anticipates slightly greater savings with the expansion.

CC: Kathi Way — Kathi — would you help you to see this kind of thing? Nam

Interesting — to AGJ, H Clinton, M Espy, Bill Galston, Carol — Ron Brown, B Rubin



Bruce Reed, Kathi Way } fyi

THE PRESIDENT HAS SEEN

FILE WAIVERS

does not facilitate the wholesale restructuring of the former defense industries. Tax and other incentives should be offered to workers and managers to encourage them to create and enter new companies, rather than remain in the current bureaucratically encrusted settings.

**Focus on consortia of defense suppliers.** Instead of expecting giant firms to create new industries such as the manufacture of rail cars, it makes more sense to encourage smaller, more nimble suppliers to band together. Many of these firms are already "dual use" suppliers who have learned over the years to sell in both commercial and military settings.

**Focus on the creation of industrial growth, particularly in new industries.** Incentives should be made available to firms that can absorb defense workers (like electronics or medical equipment) if they demonstrate they can perform this task successfully. No conversion funds should be used, directly or indirectly, for companies who then squander public resources on stock buy backs or dividends.

These prescriptions make infinitely good sense — economically, socially and, in the long run, politically. Public efforts to aid "conversion" to the post-Cold War economy — whether underwritten by the new Administration in Washington, or by the state — should be devised to meet the real needs of communities and people.

*Joel Kotkin and David Friedman are the authors of* The Los Angeles Riots: Causes Myths and Solutions, *published by the Progressive Policy Institute.*

# MARKET X

BY PAUL PRYDE

In the aftermath of the Los Angeles riots, almost everybody acknowledges the importance of creating new jobs, business opportunities and wealth for the residents of America's cities.

The question is how to do it. The answer is a word we AfricanAmericans have been hesitant even to consider: markets.

**Can we make the market work for the discouraged, isolated and frequently embittered "underclass"?**

The irony here is that the black struggle for equality has been shaped by two important (though rarely explicit) market-based principles.

The first is that all Americans are entitled to fair treatment in the marketplace. In labor, housing or product markets, blacks should be accorded the same treatment as their white counterparts. Black dollars should be able to buy the same housing as white dollars. Black Ivy League graduates should be treated just like white Ivy League graduates in the competition for jobs. Black consumers should be treated just like white consumers in restaurants, hotels and theaters.

The second principle is that it is the responsibility of government to ensure that markets function fairly. Thus, government is obligated to outlaw racial covenants in housing markets, require employers to hire on a non-discriminatory basis and penalize businesses that refuse to serve black customers.

That the two principles have worked well for the black middle class is beyond dispute. Discrimination still exists, of course, but its effect has been greatly moderated. Well-educated, African-American married couples, for example, have almost reached parity with their white counterparts, thanks primarily to the enshrinement of these twin (still imperfectly observed) notions.

So why hasn't the market worked for the black poor? Maybe it's because the black middle class — which, after all, sets the policy agenda for black America — doesn't believe the market can work for poor people. Indeed, despite rhetoric acknowledging that the problems of the poor can only be solved through the creation of private jobs and wealth, we continues to act on the assumption that markets are the cause of poverty, and that compassionate government is the cure.

Our agenda has proceeded from the belief, not always articulated, that the way to handle the unemployment, disinvestment and poverty caused by market malfunctions (including racial discrimination) is to replace the market rather than to repair—or create— it.

Can we make the market work for the discouraged, isolated and frequently embittered "underclass?" The answer is an unqualified "yes," though it will require us to rethink some of the approaches that have achieved the status of received wisdom.

Here are ten heretical proposals, which would do more for the black poor than the holy writ they would replace.

**1 Spend wisely, not simply more, to combat poverty.** In spite of

huge increases in social spending over the last 30 years, the problems of the inner-city have grown more intractable. The problem, according to an increasing amount of evidence, is government itself.

As David Osborne and Ted Gaebler make clear in *Reinventing Government*, the large, bureaucratic organizations that we have made responsible for solving the country's social problems only do *static* tasks well. They perform poorly *dynamic* tasks—jobs that are complex, change rapidly or involve custom-tailored solutions.

Certainly, some public programs need more money, but money spent on the problems of the inner-city will be money wasted unless government learns to spend it better.

**2. Recognize the limitations of affirmative action.** Eliminating racial discrimination, wherever it exists, is an important and worthwhile goal. However, affirmative action is not a particularly useful strategy for the battle against black poverty and unemployment.

At one time, African-Americans were routinely denied employment on the basis of race alone. Blacks with advanced degrees from Ivy League colleges were consigned to menial jobs. Today, however, most jobless inner-city residents are unemployed not because of overt racial bias, but because of policies and forces that eliminate jobs that are available.

For example, in 1950, 60 percent of the good-paying jobs in America required little or no skills beyond the willingness to work hard and show up on time. In today's knowledge economy these jobs are gone. Efforts to end racial discrimination in employment are powerless against such trends.

**3. Give people who live in the inner-city the job of rebuilding it.** Renovating buildings in inner-city communities could provide badly needed work for black workers and construction firms.

However, the Davis-Bacon Act, and other laws requiring that workers on federally financed construction jobs be paid the "prevailing wage," will prevent them from getting it. There are two reasons. The first is that prevailing wage laws make projects most likely to be built by black workers and firms infeasible. The second is that prevailing wage laws also prevent non-union black contractors from competing successfully with large, union contractors.

Davis-Bacon was enacted in 1931 to prevent southern blacks from competing with northern white construction workers. If it doesn't make sense to get rid of it, it should at least be waived for work in high unemployment areas.

**4. Make welfare recipients producers, not just consumers.** One of the major flaws of the American welfare system is that it encourages consumption and discourages production. It rewards spending and penalizes thrift.

Indeed, the welfare recipient who manages, through sacrifice and frugality, to put a few dollars aside, for, say, her daughter's college education, may find that she has broken the law. The savings can represent an illegal "asset" which, at the very least, mandates a reduction in her welfare check and which could end her welfare eligibility or even send her to jail. In short, welfare rules, intended to curb costs by preventing abuse may instead increase these costs by penalizing the very behavior needed to escape poverty.

Michael Sherraden makes just this point in *Assets and the Poor*. The absence of assets, he argues, keeps people from thinking beyond the short term and inhibits productive behavior. How might we do it differently? Self-employment is one answer.

Under several demonstration programs, welfare and unemployment compensation recipients have successfully started "micro-businesses" in fields ranging from furniture restoration to property management. For example, a study of 150 participants in a self-employment program run by the Hawaii Entrepreneurship Training and Development Institute found that 66 percent started businesses and 52 percent were still in business after one year.

**5. Use privatization to create black businesses.** Because of rising costs and inefficiency, states and localities are beginning to introduce competition into the delivery of public services, entering into contracts under which private firms furnish services once provided exclusively by public agencies. This trend offers important opportunities in poor communities.

Take transportation. In Washington, D.C. and a number of other cities low ridership and high costs have made serving poor neighborhoods a money-losing proposition. One way to solve this problem would be to contract out the operation of these routes to private firms. By using smaller, less expensive busses and employing new work rules these firms could reduce costs and operate profitably the same routes that public authorities want to abandon.

Throughout the country, blacks are well-represented among public agency managers, administrators, technicians and line workers. Privatization creates the opportunity for them to build businesses that improve the quality of local services while creating jobs for inner-city residents and wealth for themselves.

**6. Make school choice an engine for economic empowerment.** A properly-designed public school choice program would not just improve education. As in East Harlem's District 4, it would also encourage teachers and administrators to form jschools and other enterprises that would generate

economic activity in the inner-city.

It could work this way. Allow a group of entrepreneurial teachers to form a school with, say, a capacity for 80 children, 15 children per teacher. In 1989, the average per-pupil cost in big city schools was about $5,000. The teachers are given funding equal to that amount or, $480,000 per year.

Even if each teacher were paid $50,000 a year, 60 percent more than the average pay of public school teachers, the school would still have over $230,000 a year to hire inner-city residents as teachers' aides, to lease space from local property owners and to buy supplies and equipment from local vendors.

In short, choice would not only improve education, thus giving people trapped in the inner-city both economic and geographic mobility; it could also strengthen the inner-city economy by stimulating the formation and expansion of schools and other education-based businesses.

**7 Steer private investment to inner-city firms.** If entrepreneurs are to create service, manufacturing and retail businesses within the inner-city, they need capital.

One way of solving this problem is for the federal government to allow a deduction for investments in small businesses located in enterprise zones. Taxes on the profits should also be deferred.

These two incentives would increase the return on successful investments and reduce the loss on unsuccessful ones, thus enabling firms in enterprise zones to obtain capital. As a result, inner-cities would become more attractive places to start or expand a business.

A venture fund designed to finance young bio-technology firms is one of the reasons that Worcester, Massachusetts is attracting the bio-tech industry. Allowing investors to deduct investments in enterprise zone firms would help inner-city areas become, like Worcester, successful "incubators" of young, job-creating firms.

**8 Make inner-city lending profitable for banks.** The Community Reinvestment Act requires banks to be more aggressive in meeting the needs of credit-starved communities. It is a good start, but it is not enough. Inner-city businesses still experience great difficulty securing credit for expansion and growth. The reason, of course, is that banks find making these loans too risky or costly to be profitable.

To overcome this problem, we can do two things. First, we should create an insurance program to guarantee "portfolios" of inner-city loans. Modeled on Michigan's highly successful Capital Access Program, such an effort would be less expensive and involve less paperwork than SBA's current 90 percent guarantee program and would be an incentive for banks to make a large number of loans. Second, we need to create a secondary market allowing banks to sell their inner-city loans— a Fannie Mae for community development credit. A portfolio insurance program would decrease the risk of inner-city lending; a secondary market would increase its liquidity and profitability.

**9 Make it attractive for firms, wherever located, to hire and train inner-city workers.** Privatization, choice, investment incentives and easier credit will increase the number of job-creating enterprises in the inner-city. However, everybody who lives in the central city cannot work there. In addition to creating inner-city jobs, we also need to make hiring inner-city residents attractive to suburban employers.

One way to do this is to create special purpose "employee leasing" firms that would hire, train, and provide support services (e.g. day care) to inner-city residents working for both suburban and central city employers. By allowing employers to avoid some of the costs and risks generally associated with inner-city workers, employee leasing organizations would make hiring such workers more attractive.

Wage tax credits, transfer payments, training subsidies and other job-related entitlements could be used by employees and employers to finance the costs of employee leasing companies.

**10 Make workers owners not just employees.** A number of studies have shown that worker-owned companies tend to perform better than firms whose ownership is narrowly held. Certainly, broadened ownership is critical to eliminating the hostility, alienation and despair that threaten to make our inner-cities unlivable and our youth unemployable.

Thus, beyond encouraging businesses to locate and hire in the inner-city, we need to induce them to share ownership with their workers.

This can be done by allowing loans to Employee Stock Ownership Plans (ESOPs) sponsored by inner-city companies to be fully tax-exempt which would make these loans more attractive and increase employee ownership of inner-city firms.

The proposals described here are designed to create a spiral of prosperity in the inner-city. There is already evidence that they work separately; together they would reinforce one another and work even better. Here's what should happen.

Expanded privatization and school choice, in addition to improving services and education in the inner-city, will create new entrepreneurs and businesses. Allowing investors to write off investments in small companies should enable these new entrepreneurs to obtain the capital they need to build their firms and to create jobs.

Portfolio insurance and increased

liquidity will make banks more willing to extend credit to them. Increased interest in inner-city investment and lending should also create a need for lending and investment intermediaries.

Minority-owned and oriented banks and venture capital companies, as well as community-based development corporations, will find their services in greater demand. The availability of capital will also attract outside entrepreneurs who need money to start or expand manufacturing, service and technology companies.

More small businesses will mean more jobs. Employee leasing organizations will encourage both these firms (and their suburban counterparts) to hire and train local residents.

Increased jobs and businesses will also mean an increased need for production, office and storage space in the inner-city. Abandoned warehouse and industrial areas will be converted into safe, secure inner-city business parks.

More space demand, in turn, will enable banks to extend credit for the acquisition and rehabilitation of inner-city property, creating even more jobs and income. It will also create a need for more mortgage companies, real estate management firms and insurance agents. With employment, economic activity and wealth on the rise, retail and personal services businesses will expand, thus creating even more jobs, more economic activity and even stronger economic institutions.

Malfunctioning or poorly organized markets impose a terrible cost on residents of the inner-city. When people experience no return for legal effort, they cease to exert it. It may not be right, but it is certainly rational.

A successful market economy in the inner-city would restore and reinforce the link between individual effort and reward. People who work hard could get ahead. Young people could see, once again, the relationship between school and success. The culture of failure, and the crime and violence that accompany it would be replaced by this culture of achievement. All this can happen if we make markets that work so well for the rest of America work for the inner-city.

*Paul Pryde is a consultant and co-author of* Black Entrepreneurship in America.

# COMMON GRIDLOCK

BY CURTIS GANS

Perhaps you received the same mailing: Congress "up for grabs to the highest bidders;" Congress "For Sale;" Special interests "corrupting the U.S. Congress;" Flood of special interest money "prevents Congress from solving pressing problems."

Those words and many similar ones have been brought to your mailbox courtesy of Common Cause; the self-appointed, self-anointed "citizens" lobby which is again seeking to scare the public and bludgeon Congress into passing its version of campaign finance reform. And for the fourth Congress in a row, the prospects for passage of the Common Cause program are dim and the danger to the political system, were its program to pass, dire.

Once a source of identifying a problem, Common Cause has become *the* problem—the principle obstacle to any constructive campaign finance reform which does not undermine the political system it seeks to improve.

**Once a source of identifying a problem, Common Cause has become *the* problem—the principle obstacle to constructive campaign finance reform.**

At one point, about 22 years ago, Common Cause, under the leadership of John Gardner, could claim (and deserve) some credit for putting the issue of campaign finance on the American agenda and for helping to achieve, in the Federal Election Campaign Act of 1971, three important positive public policy innovations — systematic public disclosure of campaign contributions and expenditures, partial public financing of Presidential primaries and full public financing of Presidential general elections, and the establishment of a Federal Election Commission.

But in the ensuing years, Common Cause has become the increasingly shrill hawker of a decreasingly defensible set of approaches to improving the political system.

There will be neither meaningful nor appropriate campaign finance reform until Common Cause is removed from the center of debate on the issue. Its analysis of the problems of the American political system is too narrow, its approaches to remedy are likely to do more harm than good, its tactics are counterproductive to progress and its rhetoric helps undermine the very system it seeks to improve.

A few words about each of these: