CLASP
policy solutions that work for low-income people

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Testimony for the Record

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Hearing on State TANF Spending and Its Impact on Work Requirements

Subcommittee on Human Resources
Committee on Ways and Means
U.S. House of Representatives

Mr. Chairman, Members of the Committee, thank you for the opportunity to share CLASP's views regarding the work and spending requirements that states must meet under the Temporary Assistance for Needy Families (TANF) program. CLASP develops and advocates for policies at the federal, state and local levels that improve the lives of low-income people. In particular, we focus on policies that strengthen families and create pathways to education and work.

This hearing addressed the relationship between the TANF work participation rate and the "maintenance of effort" (MOE) provision that requires states to continue to spend at least a specified fraction (75 or 80 percent) of what they had spent under Aid to Families with Dependent Children (AFDC), which was a matching grant. In particular, it focused on the "excess MOE" provision, which allows states to receive an enhanced caseload reduction credit toward the work participation rate if they spend more than the MOE requirement.

It is helpful to recognize that this particular question is one manifestation of a broader issue about accountability and incentives in the context of a block grant. TANF was designed to be a flexible block grant, with states given wide discretion in the use of federal funds as long as these uses are consistent with the four broad purposes of TANF. However, Congress wished to ensure that the programs states operated were work-focused and temporary, and therefore created the work participation rate and federal time limits. Congress also did not want TANF to be simple revenue sharing with the states, and therefore created the MOE requirement so that states would continue to invest their own funds in programs serving low-income families and could not simply substitute the federal funds for existing state spending.

Neither of these provisions has quite played out as expected when Congress created them in 1996. It is therefore appropriate for Congress to revisit these issues. But I urge this Committee to look at the full range of incentives in the TANF program, rather than to single out this one interaction. Based on the evidence of recent history, removing states' ability to claim credit for "Excess MOE" without making additional changes is unlikely to have the desired effect of encouraging states to serve a larger share of welfare recipients with work activities. However, it could well lead to more states reducing their investments in programs for low-income families.

The TANF Work Participation Rate

Since TANF was created, the primary performance measure has been the work participation rate (WPR), a measure of how successful states are at engaging adults in families receiving cash assistance in a specific list of work-related activities. States must engage at least 50 percent of adult members of families receiving assistance, and 90 percent of their two-parent families, in countable work activities for a minimum number of hours per week. States that fail to meet their WPR can lose a portion of their block grant funding.

By statute, states have their target WPR lowered to the extent that they have experienced declines in the number of families receiving TANF assistance. During the early years of TANF, caseloads dropped far more than expected, such that many states were able to meet their work participation rates entirely through the caseload reduction credit. When TANF was reauthorized as part of the Deficit Reduction Act of 2005 (DRA), Congress reset the baseline for the caseload reduction credit. As a result, states now only receive credit for declines compared to their 2005 levels.

The DRA also added to the work participation rate families receiving assistance from programs that are funded with state dollars claimed toward the MOE requirement; previously, many states had used such programs to serve families for whom they did not believe the federally countable work activities were the most appropriate assignment. Finally, the reauthorization allowed the Administration for Children and Families to issue regulations defining each of the work activities and requiring all hours of participation to be documented. The effect of these changes was to make the work participation rate more challenging for states to achieve.

As the Government Accountability Office (GAO) has reported, states responded to these changes through a variety of strategies to increase their reported work participation rate and/or lower the required target. Many states have made extensive efforts to improve the reporting and documentation of hours of participation. However, there is little reason to believe that these efforts have in any way improved the employment services available to recipients. If anything, they have consumed large amounts of staff time that could otherwise be used to provide individualized services. For example, a Minnesota study found that employment services caseworkers spent half their time documenting participation.

Other states have improved their work participation rates by changing the population included in the denominator of the calculation. Many states have taken steps including up-front diversion, use of solely state funded programs, and full-family sanctions to remove from their caseload families with adult members who are not participating in countable activities for the required number of hours. Others have added families who are employed and countable as participating. A final common strategy to reduce the required WPR has been the use of Excess MOE. The provision allowing states to increase their caseload reduction credit in this way had been in place since the early years of TANF, but had not been widely used until after the DRA changes.

Based on this experience, there is little reason to believe that removing the Excess MOE provision would have the effect of increasing the number of low-income parents who are engaged in work activities. Particularly in this period of highly limited resources, it is simply less costly and easier for states to attempt to achieve the work participation rate by serving fewer families who need assistance, particularly those with significant barriers to employment who are likely to require more time and extensive services before they are able to participate at the levels needed to be counted toward the work participation rate. Even the states that have maintained their commitment to both providing a cash assistance safety net and serving all TANF recipients with appropriate work activities recognize that these efforts are likely to be only minimally reflected in the work participation rate. These states therefore combine their work-focused efforts with backup strategies for ensuring that they do not become subject to WPR penalties. In these instances, Excess MOE and other strategies are not a substitute for operating a work-focused program; rather, they are the means by which states ensure that they have the flexibility to do so.

Because of the caseload reduction credit, from the first years of TANF until the DRA, the WPR was not a binding constraint upon states. Nonetheless, it sent a powerful signal to states that

TANF should be a work-focused program. This signaling effect continues. Moreover, TANF agencies have overwhelmingly internalized this mission of engaging recipients in activities leading to self-sufficiency, and would likely continue to enforce a work expectation even in the absence of any federal requirements.

The WPR measures whether states are tracking the participation of TANF recipients in countable activities. It does not distinguish between states that have low participation rates because they are doing a poor job of engaging recipients in any activity and states that have carefully assessed recipients and assigned some to reduced hours of participation or to activities that are not federally countable, such as full-time basic education. States with high WPRs may have achieved them by placing hurdles to keep individuals with significant challenges out of the program. The WPR also does not measure the effectiveness of states' employment programs.

States that are willing to be held accountable for the outcomes they achieve in their programs, such as employment entry, job retention, or poverty reduction, should be given the ability to opt out of the process-focused participation rate either for the entire TANF population or for groups participating in specific programs such as career pathways initiatives. Several states are already using such measures internally to monitor the performance of contractors or county agencies, and to guide policy development. Performance measures and targets should be negotiated between the states and HHS, with adjustments for populations served and economic conditions. States taking up this option should be required to report data that demonstrate that they are not "creaming" or setting up barriers that discourage services to less employable participants.

Maintenance of Effort (MOE)

AFDC, the predecessor to TANF, was a matching program, where each dollar of state spending drew down additional federal dollars. When the TANF block grant was created and this matching relationship ended, Congress required states to continue investing their own funds in TANF and other programs serving low-income families, at 75 percent of their historic levels (rising to 80 percent if states fail to achieve the required WPRs). This provision was designed to prevent states from supplanting their own spending with federal dollars, and to preserve a floor on services to low-income families with children. State administrators also report that the MOE requirement is helpful in enabling them to avoid even deeper budget cuts in this time of fiscal retrenchment.

However, the MOE requirement has become less effective at these purposes over time, for several reasons:

- Neither the TANF block grant nor the MOE requirement has been adjusted for inflation or population growth since TANF was created in 1996. Inflation alone has eroded the purchasing power by more than 30 percent. This means that the same nominal levels of spending have significantly less purchasing power than they did when TANF was created.

- MOE funds are not limited to TANF and related services, but can be spent on a wide range of programs and services for "needy" families, with certain exceptions, such as for generally available public education. States have the flexibility to define "needy" which is not limited to the eligibility standards used for cash assistance. Some states have used extremely broad definitions of "needy," in one case defining it as 600 percent of the federal poverty level. In some cases, states are claiming the portion of non-means tested programs attributable to such "needy" families toward the MOE requirement.

- Some states are claiming significant non-governmental (third-party) expenditures toward the MOE requirement. This is permitted under a long-standing policy, but states have become more aggressive in seeking out such expenditures. In some cases, service providers have been told that if they do not agree to having their private funding claimed toward MOE, they are at risk of losing other government funding.

In some cases, states have used these strategies to report MOE funding far in excess of the minimum required. This has allowed them to reduce their work participation rate targets, and has also allowed them to draw down funds from the Contingency Fund and the TANF Emergency Fund, when they were available.

However, other states have used these strategies, but have not increased their total MOE spending. Instead, they have taken advantage of both third-party MOE and newly identified state spending from other agencies to meet the MOE requirement while withdrawing state funds from TANF, child care, and other programs serving low-income families. This is both an abdication of responsibility to the neediest families, and contrary to Congressional intent in creating the MOE requirement. The MOE requirement is at risk of becoming not just a "leaky bucket" but a completely cracked one. The ability to use Excess MOE to increase the caseload reduction credit is a patch on this bucket, as it strengthens the incentive to claim additional MOE rather than use it to supplant state spending. Removing this patch could cause the trickle of supplantation to grow to a flood; however, in the long run, more significant reforms are needed.

To ensure that the MOE requirement continues to have its original intent, and to ensure that resources are available to serve the neediest families, when TANF is reauthorized, Congress should adjust both the block grant and the MOE requirement for inflation. Only spending by governmental entities (including counties and other sub-state entities) should be countable. While it made sense for states to claim spending by non-governmental third parties to access the Emergency Fund, and draw down badly needed funding for programs for low-income populations, allowing this policy to continue has the potential to completely undermine the MOE requirement. Finally, a reasonable limit should also be set on the definition of "needy families" so that states may not claim expenditures on families earning well above the median income.

For a fuller discussion of CLASP's priorities for TANF reauthorization, see:
Elizabeth Lower-Basch, *Goals for TANF Reauthorization*, CLASP, Updated January 24, 2011.
http://www.clasp.org/admin/site/publications/files/TANF-Reauthorization-Goals.pdf