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"Welfare Reform: Building on Success"

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Mr. Chairman and Members of the Committee, thank you for inviting me to testify. My name is Margy Waller. I am a Visiting Fellow at the Brookings Institution in Washington, DC where my research focuses on welfare and low-income working families. It is an honor to appear before you to discuss the outcomes of the 1996 welfare law, and methods for building on the law's success as you consider reauthorization.

There is a widespread consensus that the implementation of the law has led to some important and positive outcomes. Caseloads have dropped significantly, in large part because adult welfare recipients left the rolls to go to work. In addition, the most common way for welfare recipients to fulfill work requirements is an unsubsidized job in the regular market. Furthermore, states report that nearly two-thirds of all adults are working or participating in activities intended to lead to work.

One of the most surprising positive outcomes of the 1996 law, moreover, has been the ability of states to use the flexibility in the law to "make work pay." The combination of caseload decline, and the promise made and kept by Congress to retain level funding of the Temporary Assistance for Needy Families (TANF) block grant for five years, and the flexibility provided in the TANF regulations, has made it possible for states to invest over half of the block grants in child care, transportation, and other services. Research increasingly shows the importance of these supports for families that stay in the workforce. Given this record of achievement, considerable consensus about the success of the law has emerged.

In view of that, the changes to the 1996 bill contemplated in the administration's proposal for welfare reauthorization are hard to understand. In sum, the proposal seems sure to undermine the success of the welfare law by effectively eliminating the ability of states to employ proven welfare-to- work strategies, and virtually wipe out the progress made in the last six years to use TANF and child care funds to "make work pay".

To see why this is so, my testimony will review the following points:

- States are moving record numbers of recipients into jobs and using the flexibility in the law to engage a high percentage of the remaining recipients.
- States also use the flexibility in the law to provide work supports like child care and transportation that help parents care for their children and remain off welfare to low-income working families.
- There is no evidence that increasing the number of hours an adult must participate in welfare-to-work activities will lead to better employment or family outcomes.
- The administration's proposed work requirements will effectively force states to create costly one-size-fits-all work programs states have generally not used their flexibility to implement on their own.
- There is a growing body of evidence that employment and family outcomes improve when low-income families get work support services like child care, transportation, housing, training, and wage subsidies.

- States report that the administration's proposal would require that they cut funding for these successful work support services in order to pay for large, expensive, and unproven work programs for those remaining on the rolls.

In my testimony, I will first review some important outcomes and lessons of the state and local implementation of the welfare law. Next, I will outline my concern that these successes will be undermined by the limitations and cost of the administration's proposal. Finally, I will make some specific recommendations to the committee for your consideration as you draft a reauthorization bill.

Welfare law outcomes

In 1996, the states and federal government shared the cost of the Aid to Families with Dependent Children (AFDC) program. States had the power to decide which families would be eligible, within some federal rules. And the states and the federal government shared the cost for a welfare check and limited services to every eligible family that came through the door of a welfare office.

The 1996 welfare legislation altered this arrangement significantly.

Now, states get a block grant from the federal government that is roughly equivalent to the amount of federal funds they were getting just before the federal law passed. Congress promised to continue funding the block grants at the same level for six years, even if state caseloads declined. States must continue to spend about 75 percent of the amount they were spending for AFDC. There are new standards and rules for states and recipients, but much more flexibility for administrators in program design.

States must meet work participation requirements, which means that beginning in 1997 states had to have an increasing percentage of their caseloads engaged in welfare-to-work activities defined by the federal law. The state may only count adults who participate in at least 30 hours of countable activities a week toward the rate. Parents with children under age 6 can be counted if they work for 20 hours.

The participation rate requirements increased from 25 percent of the caseload in 1997 to 50 percent in 2001. However, in an attempt to give states credit for moving people off welfare (and hopefully into work) the law rewarded states for reducing the caseload. States get to reduce the participation rate for each percentage point of caseload reduction since 1995. This formula lead to a much smaller effective participation rate requirement than anyone anticipated. By 2001, the national effective rate had dropped to five percent as a result of the significant national caseload decline. However, states' actual participation rates are much higher.

Researchers have credited caseload decline of more than 50 percent to a combination of factors: the change in culture resulting from signaling in the federal law; a strong economy that created high demand for entry level workers; and "make work pay" incentives like earned income tax credits, child care assistance, and other supports available to low-income working families.

The low effective rate might be a problem if states had taken advantage of it to eliminate their requirements for participation in work and work-preparation activities. But states have not done that. In fact, a number of states have an effective rate of zero, but are reporting participation in work activities meeting federal definitions in excess thirty percent.

After 1996, most states designed programs with a strict work-first approach. However, within a couple years, many administrators discovered that this strategy did not work well for all recipients. States began to develop more of a menu of strategies for adults with multiple barriers to work like health problems, limited English proficiency, domestic violence, substance abuse, and depression. In addition, recognizing that many recipients returned to the rolls after a job loss or financial setback, some states started to invest in helping recipients prepare to secure a job that holds the promise of paying enough to support a family, and offers opportunity for advancement. Still, the states are committed to requirements for welfare recipients to work toward leaving the welfare rolls and are engaging over 60 percent of recipients in some work-preparation activity.

Flexibility makes success possible

Caseload decline, combined with level funding, and the formula for participation requirements have had the effect of maintaining state flexibility in the law. States used this flexibility in two ways: to create participation options for hard-to-place recipients, and to provide retention and advancement services to low-income working families.

Addressing the needs of adults with barriers to work

States have used the flexibility in the 1996 law to create employment services that meet the needs of recipients with barriers to work, even when the activities are not countable toward the participation rate in the federal law. Thanks to the formula for the participation rate, administrators have been able to engage a large part of the caseload and simultaneously attempt to design the most appropriate plans based on individual and local circumstances.

Our research shows that single mothers in remote rural counties and central-cities counties were more likely than their counterparts elsewhere to have been poor and on public assistance for extended periods of time during the 1990s. In addition, the long-term welfare caseload is increasingly concentrated in metropolitan areas with larger cities. These families may require additional support to move from welfare to work: services such as skills training for new employment opportunities, or transitional work to prepare for the expectations of the workplace.

Improving job retention and advancement

Studies of families leaving welfare generally find that about two-thirds to three-fourths of all “leavers” work at some point. However, this does not mean they find full-time year around jobs. These families are working, but poor. Many remain below the federal poverty line and are very much in need of work support services if they are to stay in the jobs and move up the ladder of work. States use their flexibility to invest in work support services like child care and transportation for these families.

Unfortunately, working families often do not always get these important work supports. For example, only one in seven children eligible for child care assistance under the federal criteria gets a subsidy. Despite federal and state increases in child care funding in recent years, we are a long way from providing enough assistance to meet the needs of low-income working families. And the picture is getting gloomier with states making or proposing to make funding cuts for child care assistance in order to balance state budgets.

Other families are able to find work but have difficulty increasing their income over time. Certainly, these families will need help with child care and other work supports. Some welfare administrators have designed successful post-employment strategies that combine work and study to prepare for a higher paying job opportunity.

The key to providing all these welfare-to-work services is the flexibility provided by the combination of caseload decline and credit for the decline. Caseload decline freed up funds previously spent on cash assistance. In 1997, states spent over two-thirds of the state and federal funds on welfare checks. By 2001, the funding for cash assistance represented only slightly more than one-third of the spending. States spend the freed-up funds on child care, transportation, literacy training, pregnancy prevention, education, employment advancement services, strengthening two-parent families and marriage, after-school activities, and other welfare-to-work services. In particular, states were able to increase child care spending for low-income working families with funds previously spent on welfare checks.

Still, when they developed recommendations for TANF reauthorization in 2000, state and local officials requested additional flexibility in countable activities so they could better meet the particular needs of local recipients. Many TANF administrators noted that caseloads include a growing percentage of recipients who face multiple personal barriers to work: illiteracy, limited skills, substance abuse, depression, and lack of recent work experience.

The administration proposal

So, most stakeholders expressed surprise when the administration proposed a package of changes that seriously limits flexibility in meeting work participation rates and designing individualized programs, while simultaneously essentially mandating a large and unproven workfare program that would require spending cuts in support services to poor working families.

Members of the administration recently stated that the president's proposal for reauthorization takes the "next step in welfare reform by strengthening work requirements, providing the assistance families need to advance in their careers, and granting states more flexibility to run successful programs."

Members of the committee should consider whether each of these goals requires changes in the existing law, and if so, whether the steps proposed by the administration will achieve the stated goal in the most effective manner.

Part 1: Strengthening Work Requirements?

Strengthening work requirements has three subparts in the administration proposal:

1) increasing the number of hours an individual must participate in order to count toward the rate
2) narrowing the activities that count toward the work activities hours (the first 20 under current law, and 24 under the proposal)
3) increasing participation standards for states by
    a) increasing the rate, and
    b) eliminating the existing caseload reduction credit, replacing it with a credit that will not reduce the rate so significantly

Of course, the three parts are inseparable because each has an impact on the others. For example, analysis of existing welfare to work programs indicates that increasing the participation rate above 50 percent would require counting *any activity*, and *all participants regardless of the number of hours of participation*. This was apparent in the state responses to a survey last year. States reported that over 60 percent of adult welfare recipients are engaged in *some* work-related activity, as defined by state or federal law. However, only 29 percent are active for at least 30 hours in activities that count under current law.

<u>Increasing the number of hours of participation creates a number of problems:</u>

- Most adults in countable activities are working in the regular labor market where they have not been able to find jobs that provide a 40-hour work-week, and it is difficult and expensive for administrators to create programs for 5 to 10 hours a week.
- In any particular week, a significant number of participants will not meet the hours requirement if it is set at 40 hours. Even at 30 hours a week, many administrators report difficulty and some states have consequently set hours requirements higher than the weekly average they hope to achieve. To meet a 40-hour requirement, states would actually have to set the hours minimum higher than 40.
- Increasing the hours requirement raises costs of program administration as well as child care, forcing states to reduce their investment in other TANF-funded programs. A recent Congressional Budget Office (CBO) analysis found that the overall cost to states of implementing the proposed work requirements would be between $8 and $11 billion. Members of the administration indicate that the cost should be paid for with the existing block grants, but do not indicate what services states should cut in order to pay for a work program.
- States already have the flexibility to create workfare programs. However, they have not used the option much at all, and certainly not in large statewide programs. Nationally, only 5.3 percent of families counting toward rates were in community service or work experience programs. Only 6.3 percent had any hours in these activities. In fact, most adults that count toward the rate are working for wages in the regular labor market. However, their earnings are so low that they remain eligible for some cash assistance, enabling the state to count these workers toward the rate.

<u>Narrowing the list of countable activities would force states to make major changes</u>

- In last year's survey, states reported that under the current law on average 29 percent of the TANF cases with an adult in the caseload are engaged in a federally-defined work activity for at least 24 hours a week. However, only 20 percent of the cases with an adult are working 24 hours or more in an activity that would meet the proposed definition of countable activities.

- This proposal runs directly counter to the advice of most administrators: Count more education and training toward the rate, as well as other barrier removal activities like treatment for depression and substance abuse.

The participation rate should encourage and measure success

The administration's proposed rate would eliminate the credit for caseload reduction, and replace it with a formula that temporarily adds working families who leave the rolls into the rate. The House bill inexplicably retains a caseload reduction credit, despite broad agreement that the goal should be to measure successful outcomes, not just families leaving the caseload since some 25–40 percent leave without a job. This subtraction approach is confusing. The public and media reasonably expect states to be striving for the actual rate, not the rate minus the maximum credit allowable.

Instead, performance measures for success should count the outcomes we want to encourage. The rate should count those who are on assistance and engaged in work preparation, subsidized and unsubsidized employment, as well as those who have left welfare for work. It should give extra credit for placements in better paying jobs and credit for helping low-income parents stay on the job with child care and transportation, or other work supports. This proposal is much like the one adopted by this committee last year, and supported by senators from both sides of the aisle.

The state participation and employment standard should encourage and measure desired outcomes without simultaneously making it more difficult to achieve these outcomes. While the administration's proposal for the rate partially accomplishes the first, it fails on the second.

Pushing all of the administration's proposed work requirement levers at the same time would be a recipe for failure—for the states, for low-income workers, and for families on welfare.

Part 2: Providing the assistance families need to advance in their careers?

The administration's proposal to "strengthen work requirements" comes at a high cost to program flexibility and services to low-income working families. So it seems reasonable to ask what evidence exists that the changes in work hours will lead to better TANF outcomes.

Recently, a member of the administration asserted that the proposal to increase work hours is "… a plan to help welfare recipients not only leave the rolls, but escape poverty. That is because working full time, even at relatively low-wage jobs, when combined with the Earned Income Tax Credit, helps recipients escape poverty. Part-time work does not."

There is no disputing this statement, of course. After all, the last administration deliberately designed its expansion of the Earned Income Tax Credit to ensure that full time workers with children would be able to escape poverty when they combined earnings with the EITC and food stamps. However, there is no connection between the math involved in this explanation, and a conclusion that people who have not been able to find a full-time job, or even *any* job, will benefit from a full-time commitment to some combination of workfare and other activities.

Further, the explanation fails to acknowledge that the proposal will force states to reduce services like child care to poor working families. These work support services have proven to help families “advance in their careers” by retaining jobs. The cost of increasing work hours for the recipients still getting cash assistance will require a reduction in education programs for working parents who could get a better job with additional training.

Members of the administration have also referenced a recent study from the University of Michigan as evidence that increasing work requirements will lead to success. A careful reading of the paper, however, reveals that the authors find that providing wage subsidies to welfare recipients who get jobs produces the strongest income gains—stronger than strict penalties. The research did not consider increased work hours or countable activities at all.

In fact, the Michigan research suggests that reauthorization should address the contradiction in the welfare law that makes it difficult for states to provide wage subsidies to adults on welfare when they find work. The current law has a kind of push and pull that puts these working adults in a tug-of-war. If they find a job and the state offers a federally funded wage subsidy (also called an “earned income disregard”), the family has to choose between enhanced economic security provided by the wage subsidy, and using up more months of the time limited benefit. Many observers have suggested that Congress address this inherent contradiction in the law by clarifying that wage subsidies may be provided to working parents without counting months when families receive such subsidies against the five-year time limit. While the Michigan study cited by the president provides evidence that supports making this change, the president’s proposal and the House bill do not address the wage subsidy contradiction.

<u>Creating and expanding workfare programs is costly, and would require spending cuts in services to working families and hard-to-serve welfare recipients</u>

The CBO estimates the cost of the work requirements of the House-passed bill (about equally split between the cost of the work program and additional child care that would be needed) at between $8 billion and $11 billion over five years. However, neither the administration nor the House bill increases TANF block grant funds. The administration’s budget acknowledges that its proposed flat funding of child care will result in a loss of slots for child care assistance, while the House only guarantees an additional $1 billion in child care.

Consequently, states would have to pay for the work program and additional child care out of the TANF block grant. States have been able to use carry-over funds that resulted from a rapidly decreasing caseload, and the delay that came from a transition to a new set of programs. In 2002, however, states spent $2 billion more than their annual federal grant as they spent down the carry-over. Now, states are cutting programs like child care for the working poor created with those funds.

How would states cover the costs of creating a work program and the child care that would be necessary for more people to be engaged for more hours? States would be forced to take funds away from services to poor working families and welfare recipients receiving services for multiple barriers to work. Services like child care, substance abuse treatment, and transportation would be cut. Or eliminated.

In short, the combination of parts in the administration's work requirements proposal reflects a choice. It represents a decision to focus excessively on all the families still getting a welfare check at the cost of supporting low-income working families who need services like child care and education so they can remain off welfare and support their families. It is even a trade-off that restricts the states' ability to provide training for those left on the rolls, likely limiting the future employment options of those participants.

This choice might be more logical if the administration could point to research that supports the president's proposal. In the absence of such evidence, the better method for "providing the assistance families need to progress in their careers" is one that retains flexibility, and resources for work supports proven to improve placement, retention, and advancement.

Part 3: Granting states more flexibility to run successful programs?

Proponents frequently say the administration's welfare reauthorization proposal increases flexibility. By this, they are presumably referring to the fact that the proposal requires 40 hours of participation, up from 30, but allows states great latitude in defining countable activities for the last 16 hours. However, this description completely overlooks the impact of other parts of the administration's proposal. Before states ever reach the point of designing a program of activities for the last 16 hours, the state must have a plan to meet the other requirements.

States would have to design and administer a program that includes 24 hours of community service or unpaid work for recipients that have not found a job in the regular market. The only way to meet the proposed work rates of 50–70 percent (depending on the size of the credit) would be to include almost all adults in a workfare program. The cost of creating and managing such a large number of community service or work experience positions would force states to withdraw spending on work supports like child care. The rest of the administration's proposal seriously undercuts any benefit of flexibility in the definition of countable activities in the 16 hours after the first 24. Furthermore, since current law already provides states the option of requiring 40 hours of participation defined as the states choose, mandating 40 hours of engagement can hardly be called an increase in flexibility.

The combined impact of these proposals is particularly troubling. The administration proposal requires increases in state participation rates and hours that adults must be engaged in activities in order to be counted toward the rate, and a narrowing of the activities that are countable as "direct work activities".

More than one state administrator has expressed concern that this proposal forces them to ignore "lessons learned." For example, in Washington State, independent research found the state's unpaid work experience program so ineffective at increasing employment and earnings for participants that the state canceled the program. The administration's proposal would effectively force the state to reinstate and even expand the canceled program.

States are nowhere near meeting the proposal's combination of a proposed 70 percent participation rate at 40 hours a week. Still, close to that percentage of adults is currently engaged in at least *some* activity—albeit for fewer than 30 hours. But only 30 percent is participating for 30 hours or more in countable activities. That means, as an analysis by the Manpower Demonstration Research Corporation has found, that the only way for states to increase the participation rates further is to relax the hours requirement and expand the list of eligible activities.

Under the administration proposal and the House bill, states would have to significantly ramp up work programs in order to meet the proposed requirements. The MDRC research suggests that both states and individuals would fail to meet the requirements in the administration proposal. In part, this would happen because it will be very expensive for states to develop a "work only" option for 24 hours a week for large numbers of welfare recipients. In addition, in any particular week a significant number of recipients will not meet the hours requirement because they are waiting for an assignment, temporarily disabled, experiencing a transportation or child care problem, taking care of an ill family member, or any one of a number of such common occurrences.

In short, the administration's welfare reauthorization proposal creates an effective unfunded mandate on states to create a large public program of unpaid work that would unraveling heralded state flexibility and undermining the state creativity that led to welfare reform and supported so many successful outcomes.

<u>States describe the loss of flexibility anticipated under the proposal</u>

Last year 41 of 47 states responding to a survey indicated that they would have to make "fundamental changes to their programs and/or redirect resources" to meet the requirements of the administration's proposals.

The state of Utah provided this response:

> Yes, a major redirection of resources and policy would occur. Utah would likely have to abandon the universal participation approach based on individualized employment planning. Employment counselors would become worksite developers and monitors instead of negotiating individualized employment plans tailored to meet the customer's needs to be employed.

The state of Oklahoma described the likely impact on its program:

> This would cause a major shift in how we run our programs. We currently have contracts with many state and community partners to provide work readiness activities for our TANF client. These contracts would have to be ended or severely modified. Additionally, we would have to seriously look at the

> probability of including a community service component to our program which we currently do not have.

New York State noted that the proposal would have a negative impact on services to low-income working families:

> To meet these increased rates, New York would have to significantly increase the number of recipients in other allowable activities such as work experience and community service. TANF resources directed to support working recipients and other low-income individuals will need to be redirected to help meet the increased rates to perform the additional referral and tracking functions associated with increased hours and numbers of participants.

State respondents were particularly concerned about the difficulty of meeting the proposed requirements "in rural areas where the economy is often lagging and employment opportunities are limited".

Just last month, a state legislator summarized some of the states' concerns, saying:

> *States are strongly committed to the work first focus of TANF. But, Federal constraints will compromise our ability to allocate our resources and design flexible programs to best serve individual recipients.* Major changes in the current requirements could upend state spending decisions. If we revert back to the pre-1996 system of cookie cutter programs being forced upon the states, I can guarantee that you will lose two critical components of this program:
>
> - State and local officials that have bought in to the program and are willing to work with Washington to improve the lives of families: and
> - The creative and innovative programs that have been the lynchpin of welfare reform, letting families get a paycheck instead of a government check….
>
> [t]he TANF program has given each state the freedom to respond to its own unique set of needs and circumstances. If new and inflexible work requirements are added to the program, states, constrained by the fixed sum of money available from the block grant and their own economic difficulties, will be forced to cut back on other TANF funded programs that support work. Can Iowans on welfare succeed with reduced access to childcare or other valuable services that would be sacrificed in order to try to meet these requirements? No. (Emphasis in original.)

<u>New math</u>

In February, the White House released a fact sheet about the president's welfare reauthorization proposal that said his plan would "increase the welfare-to-work resources available for families." In the document and press statements made since its release, the administration explains this statement: because of caseload decline the plan will provide “an average of $16,000 per family in federal and state welfare, childcare, and job training resources, compared to $7,000 per family available in 1996.” This math needs to be evaluated carefully.

It is true that if one divides the amount of federal and state TANF and child care funds by the number of cash assistance recipients, there is an increase in spending per family. However, this math assumes that states are spending all of these resources on cash assistance recipients. In fact, as noted above, states have used the savings from caseload reduction to provide services to many low-income working families that are *not* receiving cash assistance.

The TANF block grant is not a “cash assistance” program; it is a funding stream for “Temporary Assistance to Needy Families.” Based on the provisions of the 1996 law, states only count cases getting assistance in their caseload reports to the Department of Health and Human Services. Thus, the caseload decline we all applaud represents only those families that are either not working or, commonly, working for wages and earning so little they remain eligible for some assistance.

The General Accounting Office reported that a survey of 25 states found the states were providing TANF funded services to 46 percent more families than are receiving assistance. The only way to increase spending on a per family basis is to decrease the number of families served.

The administration’s proposed work requirements suggest that is exactly the idea. The plan would force states to shift funds away from services to low-income working families in order to create a workfare program only for cash assistance recipients. Again, this action makes little sense in light of the fact that there is no evidence that making the change would lead to better employment outcomes. In fact, there *is* evidence that reducing work support services to working families will force some families *back* on the welfare rolls. It is hard to understand the reasoning behind the administration’s proposal.

Recommendations

State and local administrators of the TANF and child care funds have shared their suggestions for reauthorization with members. This committee has been particularly attentive to these recommendations and would be well served to continue working closely with those officials in developing this bill.

Last year, this committee passed welfare reauthorization legislation developed in large part by a bipartisan group of committee members consulting with their constituents. Many senators from both sides of the aisle supported the bill.

I will begin my recommendations by commending the committee and all of the members who worked together to develop that proposal. That legislation incorporates many of my recommendations.

I will highlight important provisions of that bill that should be included in this year's version and add a couple of other suggestions based on my review of the research.

- **Retain the welfare law's focus on work without sacrificing flexibility; replace the caseload reduction credit with a standard that rewards employment and participation in work-related activities rather than caseload reduction.**

A bill that strengthens the engagement of individuals by encouraging universal engagement, increasing direct work requirements to 24 hours, and measures employment outcomes sends the right signals to states and individuals. This combination of changes increases the focus on work but also retains flexibility for the program administrators to meet the particular needs of individuals and places.

- **Support the development and expansion of transportation programs that remove a significant barrier to work and better employment outcomes.**

Both child care and transportation are usually cited as the most prevalent barriers to success at work. Child care gets a great deal of policy attention, even if we are still a long way from meeting the need of low-income working families. Policy solutions for poor families with transportation barriers to work are rarely discussed however. Lack of transportation is a significant barrier, preventing welfare recipients and other low- income people from finding, getting, and retaining a job. Public transportation is sometimes inadequate or unsafe in urban areas, and often virtually nonexistent in rural areas. Even in urban areas with an existing public transit system, service frequently does not match the transportation needs of entry level workers whose work schedule may include early morning or late night shifts when public transit is not available. Most welfare recipients do not have access to a dependable automobile, and research indicates that lack of access to an automobile is one of the most prevalent barriers to employment. Research further indicates that car ownership improves the likelihood that low-income people will get and keep work, and improves access to better jobs.

To address this problem, last year Sen. Jeffords recommended and the committee adopted a pilot program to fund car ownership programs. Many nonprofits and public agencies across the country, including states like Pennsylvania, Tennessee, Florida, Iowa, Arizona, and others have started programs to assist welfare recipients and with car purchases. This small funding stream could help ensure that successful programs continue as states face budget deficits, and support new programs in other places.

- **Funding for transitional jobs should be provided through the new Business Links grant model to support existing programs and allow other communities to develop this successful model for adults with barriers to work.**

The next step in welfare to work policy should build on successful efforts to address the needs of particular places and populations. One of the important lessons learned since 1996 is that transitional jobs are an especially promising policy response to the needs of hard-pressed rural and urban communities, and unemployed people facing barriers to work. Transitional jobs are wage-paying, community service jobs for welfare recipients and other unemployed adults who have not been hired after a job search in the regular labor market. These jobs provide experience and references that improve chances of success in the job market and enable families to avoid destitution when welfare benefits end. By comparison, unpaid work experience programs have not been successful with people facing severe barriers to work. For example, in Fiscal Year (FY) 2002, only 9 percent of those enrolled in New York City's unpaid Work Experience Program found unsubsidized employment. In Washington State, after research showed that unpaid work experience had very limited positive effects on employment and earnings, the program was eliminated.

- **Expand funding to meet the critical need for child care assistance in low-income working families.**

Only 1 in 7 children eligible under federal guidelines gets assistance with child care costs. Despite the increases in spending on child care in recent years, the vast majority of low-income working families get no help with child care costs at all. At the same time, states are cutting their spending on child care because of significant budget deficits. The administration's budget proposal makes no increase in the Child Care and Development Block Grant, and acknowledges that this will mean a loss of 200,000 slots over the next 5 years. In fact, last year CBO estimated that it would cost $4.5 to $4.9 billion over the next five years just to maintain the current level of child care in states. Of course, any increase in hours or participation rates would require an additional, and significant increase in child care spending.

In order to make welfare work, both families still getting cash assistance and those with low-income working parents need help with child care in order to succeed in getting and keeping a job. Currently, thousands and thousands of low-income working families are scheduled to lose the child care help they need to stay employed. States are lowering eligibility for assistance and waiting lists are growing for those who remain eligible. In order to continue working, families face horrendous choices. Often the only options are paying a significant amount of their limited income for child care, leaving little for other necessities, or placing children in situations that could jeopardize their basic health and safety.

- **Reinstate public benefits to legal immigrants.**

The 1996 welfare law barred recent legal immigrants from receipt of TANF-funded assistance and services, as well as Medicaid. This bar on benefits for recent immigrants disproportionately impacts cities, as they are home to the majority of immigrants in the United States. Many states use state dollars to provide some benefits to legal immigrants. In some places, local governments are required to share the cost of providing these benefits. In other places, local governments finance some services without help from the state. While immigrants are likely to work, they often earn low wages for jobs that do not come with benefits. Many of these working immigrants would benefit from the work supports that other low-wage workers may receive like health coverage and child care, as well as TANF-funded training and education like English-as-a-second-language classes. When new immigrants are temporarily unemployed, they should be able to access the same safety net as other taxpayers. States should be able to use federal funds to support these working families.

- **Permit states to use TANF-funded housing assistance as a work support like child care and transportation—without counting such aid against federal time limits.**

The affordable housing gap has adverse consequences for low-income families trying to work. The demand for affordable housing is increasing and already far exceeds supply. Much of the current stock of affordable housing is located in places that have limited employment opportunities and are a long distance from centers of job growth. A growing body of research suggests that providing housing assistance to low-income families and enabling families to live closer to employment opportunities may help welfare recipients get and keep jobs. Ten states (including Kentucky and Pennsylvania) and several counties in two additional states have committed federal TANF and/or state maintenance-of-effort funds to programs that provide housing subsidies. Many of these jurisdictions were unable to implement the types of housing programs they wanted—particularly ongoing rental assistance to working families—due to HHS rules that consider any TANF-funded housing subsidy that is not short-term as "assistance" even if families are working and not receiving TANF cash benefits. Under these rules, a TANF-funded housing subsidy provided for more than four months counts against the family's federal lifetime TANF time limit. TANF-funded supplemental housing benefits should be categorized as "non-assistance" to facilitate states' use of TANF funds to serve working families.

- **Enhance local options to prepare and support a skilled workforce required for successful economic development by counting educational activities that prepare workers to meet the needs of employers toward the participation rate.**

When states have chosen to make education and training immediately available as one of a "mix" of service options for their welfare recipients—as determined by each person's specific situation and by the skill requirements of available jobs in the local labor market-- they have shown some of the greatest achievements in the nation in terms of employment and earnings gains for their TANF clients. Oregon allowed certain welfare clients to access any where from a few weeks to two years of education as part of their welfare-to-work strategy, as determined by what would best help that individual land a decent job in the local private-sector labor market. Other Oregon clients participated in job search, or some combination of job search and education—but there was no mandated combination of how and when such services should be combined. With that flexibility, and the flexibility to use employment and training freely as part of an employment strategy, Oregon surpassed earnings and employment gains beyond any other state in the study. However, under the Administration's proposal, this strategy would be essentially impossible to implement. States should have the flexibility to replicate Oregon's successful program.

- **Maintain state flexibility to design participation plans for adults with barriers to work.**

While education or vocational training can prepare some parents for careers, other recipients need a different set of activities for them to move to self-sufficiency. Some parents have significant barriers to employment—physical disabilities, mental health problems, substance abuse problems, learning disabilities, very low literacy, homelessness or insecure housing and domestic violence—that must be addressed if the parent is going to secure employment. Some parents need mental health treatment, some need substance abuse treatment, some need to learn to read, and some need time to find and secure safe housing—sometimes away from an abusive partner. For many of these parents, 40 hours—or even 24 hours—of participation in workfare would not be the welfare-to-work activity best suited to helping them succeed in the workplace, or maintain family security and safety.

Over the past six years, states increasingly have worked to develop individualized approaches to helping recipients move from welfare to work. States have had the flexibility to engage recipients in a range of activities, including activities that did not meet the federally prescribed participation rules. States could choose to place recipients in activities the state thought were most appropriate even if the recipient would not then be countable toward the participation rate requirements. TANF reauthorization legislation should ensure that while states are required to engage an increasing number of recipients in welfare-to-work activities, they retain the flexibility they now have and use to tailor those activities to the needs and circumstances of each recipient.

- **Allow states to provide wage subsidies to low-income workers from federal TANF funds without counting months of such assistance against the federal lifetime limits of workers.**

Reauthorization should address the contradiction in the welfare law that makes it difficult for states to provide wage subsidies to adults on welfare when they find work. The current law has a kind of push and pull that puts these working adults in a tug-of-war. If they find a job and the state offers a federally funded wage subsidy (also called an earned income disregard), the family has to choose between enhanced economic security provided by the wage subsidy, and using up more months of the time limited benefit. Congress can address this inherent contradiction in the law by clarifying that wage subsidies may be provided to working parents without counting months when families receive such subsidies against the five-year time limit.

Many of those adults facing and reaching time limits in some states are currently working and using up months of assistance because their low income makes them eligible for some cash assistance. While it is possible for states to provide such wage subsidies in a separate program funded with state dollars not subject to time limits, it reduces flexibility to require states to manage the accounting of two separate programs. Instead, federal welfare-to-work policy should ensure that states have the option to use federal funds to support families who are working but poor. Federal policy should signal states that providing a wage subsidy to working families does not have to count against time limits.

- **Address problems faced by low-income families in applying for and receiving work supports like child care and food stamps.**

The Administration proposal and House bill propose to address problems faced by eligible recipients in accessing services by creating a new waiver to facilitate program integration. While the goal in this component of the proposal is important, the proposed process is a means to the end that unnecessarily leaves out important opportunities for stakeholder input. Under the administration proposal, states and the secretaries of administering federal agencies would be largely the sole decisionmakers leaving out local elected officials and providers (not to mention Congress). In addition, this so-called "superwaiver" option is so open-ended that it would permit change that fundamentally alter programs in ways that may be wholly unrelated to improving program integration. Instead, it makes sense to provide pilot grants to local communities testing methods to improve uptake of various services. In addition, a thorough review of the true barriers to program integration should be undertaken before recommending sweeping changes in program management.

- **Restore full funding to the Social Services Block Grant (SSBG) that states use to provide welfare-to-work services.**

In 1996, Congress and the governors agreed to reduce SSBG funding to $2.38 billion for 5 years and then return it to its former level of $2.8 billion in 2003. Unfortunately, the funding level was further reduced in 1998 to offset funding increases in TEA-21. SSBG is currently funded at $1.7 billion. At this point, the purchasing power of SSBG has declined by 80 percent relative to its initial funding level in FY 1977. The cut in SSBG has forced social services providers to discontinue services to children, families, the elderly and people with disabilities, lay off staff, and reduce benefits for vulnerable families. These cuts exacerbate the budget crisis in states today. There is considerable bipartisan congressional support for a return to the $2.8 billion funding level including longtime champions of SSBG on this committee.

- **Marriage proposals**

The needs for federal support for various proven methods of improving welfare outcomes are significant, as is clear from the list above. Meanwhile, only a few states have been anxious to test methods of strengthening or encouraging marriage with their flexible dollars. The evidence that we can even accomplish these goals is scant. Further, the public seems opposed to the use of federal funds for this purpose. Under these circumstances, it seems logical to invest any "spare" funds in child care, transportation, transitional jobs, or other proven strategies for success. However, if members choose to dedicate special funds to encourage states to experiment with marriage strengthening strategies, the funding should be available to replicate the one of the few strategies for which there is evidence of success: the Minnesota Family Investment Program (MFIP). MFIP participants were more likely to be married and had a reduced incidence of domestic violence compared to other welfare recipients. The model included program components designed to increase household income, including work incentives like wage subsidies. States should also be able to use such funds to invest in proven strategies to reduce teen pregnancy, which is associated with welfare dependency, poverty, and reduces the likelihood of marriage,

Since 1996, the state and local administrators of TANF have made enormous progress in turning what was a check-writing safety net into a placement, retention, and advancement system. Millions of former welfare recipients have made the leap from welfare to work. As a nation, we have come a long way toward fulfilling the social compact that promised full-time working parents would not live in poverty with their children. We clearly still have room for improvement. The decisions made in welfare reauthorization will determine whether we continue making progress in fulfilling that social compact and supporting those who still struggle to work. If Congress pursues the proposal made by the Administration and endorsed by the House, we will walk away from the promises made in the historic welfare law of 1996. Retaining flexibility, and improving the options for states to support parents with barriers and parents struggling to stay on the job is the best way to build on the success of welfare recipients and program administrators.

Thank you for the opportunity to testify on this very important legislation.

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