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## **2006 Budget Reconciliation Bill Will Challenge Missouri to Meet New Requirements in the Temporary Assistance for Needy Families Program**

*By Ruth R. Ehresman, Director of Budgetary Policy*

The Budget Reconciliation Bill of 2006 contains changes in the Temporary Assistance for Needy Families program that present challenges to Missouri. It is critical that the Department of Social Services immediately develop plans to address these challenges, and that the General Assembly includes additional money in the FY 2007 budget to support those plans.

The changes related to TANF are summarized below:

### ✓ **Increased work participation rates**

Effective October 1, 2006, each state would be required to meet a **50%** participation rate for all families receiving assistance, and a separately calculated **90%** participation rate for two-parent families. The rates would be calculated based on the combination of 1) families receiving TANF assistance and 2) families receiving assistance in state-funded separate state programs that count toward the TANF maintenance of effort requirement.

*Missouri's current work participation rate is about 25%, which means that it must double the number of single parent families in work activities in the next year to meet the federal requirements.*

### ✓ **Changes in calculating caseload reduction credits**

Under current law, States enjoyed a substantial caseload reduction credit. Work participation rates are adjusted down by 1 percentage point for each percentage point reduction in the number of families receiving assistance in TANF or state programs counting toward maintenance of effort requirements, **compared to the number of families receiving assistance in 1995.** The two-parent family rate is adjusted downward based on the reduction in the number of two-parent families receiving assistance, compared to 1995. In calculating a state's caseload reduction credit, the state may only count caseload declines that were not the result of changes in eligibility rules.

Under the budget reconciliation provisions, a state’s “all families” work participation rate would be adjusted down by 1 percentage point for each percentage point reduction in the number of families receiving assistance in TANF and MOE-funded programs, **compared to the number of families receiving assistance in 2005**. The two-parent family rate would also be adjusted downward based on the reduction in the number of two-parent families receiving assistance, **compared to 2005**. **Effective date: FY 2007, beginning October 1, 2006.**

For 2007 and future years, any downward adjustments in the required participation rates would be calculated based on caseload decline since 2005. For example, if the state’s caseload falls by 10 percent between 2005 and 2006, its required all-families rate in 2007 would be 40 percent (50% minus 10%).

*Unless Missouri’s pattern of successfully moving individuals into work-related activities changes dramatically, its case reduction credit will be negligible. A one-percent reduction would mean approximately 460 fewer families on the TANF caseload.*

*The number of families who receive TANF in Missouri is dropping very slowly. Consider the following data<sup>i</sup>*

<i>Number of families receiving TANF in June 2004</i>	<i>47,259</i>
<i>Number of families receiving TANF in December 2004</i>	<i>47,798</i>
<i>Number of families receiving TANF in June 2005</i>	<i>45,905</i>
<i>Number of families receiving TANF in December 2005</i>	<i>46,660</i>
<i>Number of families receiving TANF in January, 2006</i>	<i>46,510</i>

#### ✓ **Penalties for not meeting the required work participation rates**

The bill does not change the existing penalty for failing to meet work requirements. Under the penalty structure, the first year in which a state fails to meet the “all families” work participation rate **can result in the state’s block grant being reduced by up to 5 percent**. This maximum penalty can be reduced based on the severity of noncompliance. The penalty can also be waived under “corrective compliance” procedures for states with approved corrective compliance plans, and HHS may also choose to waive penalties if it determines that a state has “reasonable cause” for failing to meet the work rates. In subsequent years of noncompliance, the maximum penalty amount increases.

Under current regulations, the penalty for failing to meet the two-parent rate is based on the proportion of a state’s caseload that consists of two-parent families and, thus, is generally small in dollar terms.

**States that fail to meet either or both of the work participation rates are required to meet a higher maintenance of effort requirement** (80% of 1994 spending vs. 75% of 1994 spending) in the same year that the state failed to meet the work rate. (That is, if a

state fails to meet a work rate in 2008, it must meet the higher MOE requirement *in 2008.*)

*This will require additional General Revenue from Missouri.*

✓ **Additional general revenue for child care**

The reconciliation bill includes \$200 million in additional child care funding for each year from 2006 through 2010. These are “matching” funds and, thus, states would be required to match the additional federal funding with state funds. Unfortunately, the additional child care funding is less than is needed just to ensure that current child care funding keeps pace with inflation and far less than CBO estimates states will need to meet the new work requirements by increasing participation in work activities.

*The Governor’s 2007 budget request does not contain any additional money for subsidized child care to support the large numbers of families who will need to be participating in work activities.*

✓ **Additional regulations from the Department of Health and Human Services**

Under current law, the federal TANF statute allows states flexibility in a number of ways. Under the budget reconciliation provisions, the Secretary of HHS would be required to issue regulations no later than June 30, 2006 that address the following areas:

- (I) determining whether an activity a recipient is engaged in may be treated as a work activity for purposes of the work participation rates;
- (II) uniform methods for reporting hours of work by a recipient of assistance;
- (III) the type of documentation needed to verify reported hours of work by a recipient of assistance; and
- (IV) the circumstances under which a parent who resides with a child who is a recipient of assistance should be included in the work participation rates.

The Secretary would be given authority to issue these regulations as “interim final” regulations effective immediately on issuance. The Secretary’s new regulations could significantly change the state’s flexibility to define work activities. Also, the regulations related to monitoring and verifying participation in activities could be written in ways that are more or less onerous on states, families, employers, and welfare-to-work providers.

✓ **Penalties for failure to have procedures and internal controls**

Under current law, TANF regulations do not establish specific verification requirements for state reporting of participation rates. Under the budget reconciliation provisions, States would be required to establish “procedures” and “internal controls” no later than September 30, 2006, for determining: whether activities may be counted as work activities; how to count and verify reported hours of participation; and who is a work-eligible individual (i.e., subject to the work participation requirements), in accordance with the new HHS regulations.

**The bill would authorize HHS to impose penalties of at least 1 percent of a state’s TANF grant and up to 5 percent for violating these requirements**, with the amount of the penalty based on the severity of failure.

*These new provisions require Missouri to have an immediate plan and resources to: move additional families into work related activities; provide subsidized child care to assist those families as they move into low paying jobs; have a trained and effective work force with the ability to meet new monitoring and reporting responsibilities.*

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<sup>1</sup> Missouri Department of Social Services, Family Support Division/Division of Medical Services-Monthly Management Report, Table 1, (<http://www.dss.mo.gov/re/fsmsmr.htm>). This count represents anyone eligible during the month.