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## HOW CAN FEDERAL WELFARE-TO-WORK GRANTS HELP MOVE CALIFORNIANS FROM WELFARE TO WORK?

### INTRODUCTION

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 restructured the nation's welfare laws, creating the Temporary Assistance for Needy Families (TANF) block grant and instituting time limits on assistance and work requirements. These changes place heightened responsibility on states to move TANF recipients from welfare to work. In an effort to help states move the hardest to employ TANF recipients into stable employment, the federal Balanced Budget Act of 1997 creates a new Welfare-to-Work grant program that will be administered by the US Department of Labor (DoL). The program will distribute \$3 billion in grants to states and local service providers: \$1.5 billion in 1998 and \$1.5 billion in 1999.<sup>1</sup> The new law allocates funds among states using a formula based on a state's poverty rate and number of TANF recipients or twice the amount the state is currently spending on Welfare-to-Work activities, whichever is less. Grant funds awarded during each fiscal year must be spent no later than three years from the effective date of the award.

### HOW MUCH MONEY IS AVAILABLE?

California's share of the 1998 formula grant funding allocation is \$190 million, based on the DoL's estimate that 13.2 percent of individuals living in poverty and 21.2 percent of AFDC recipients in the United States reside in California.<sup>2</sup> Of this amount, 85 percent (up to \$162 million in 1998) must be distributed to local Private Industry Councils (PICs) according to an allocation formula. The remaining 15 percent (up to \$28 million in 1998) may be distributed by the Governor to programs targeted at long-term TANF/AFDC recipients.

Welfare-to-Work (WtW) grant funds will be distributed through two mechanisms. Approximately 75 percent (\$1.1 billion in 1998) of the available funds each year will be distributed through formula grants to states, with the remaining 25 percent distributed directly to local service providers through competitively awarded grants. An additional \$100 million is set aside for performance bonus payments in the year 2000 for states that demonstrate success in job placement, job duration, increased earnings, and other factors that promote TANF recipients' transition to self sufficiency. In addition, one percent of

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<sup>1</sup> Unless otherwise noted, all years specified in this report refer to federal fiscal years. The 1998 federal fiscal year began October 1, 1997.

<sup>2</sup> *Welfare-to-Work State Formula Grants Estimates for FY 1998* (Washington, DC: US Department of Labor).

the total funds available each year (approximately \$15 million in 1998) are set aside for grants to Indian tribes, 0.6 percent (\$9 million) for evaluation of WtW grants, and 0.2 percent (\$3 million) for evaluation of abstinence education programs. Funds that are not claimed by states in 1998 will be reallocated in 1999.

## THE FORMULA GRANT PROGRAM

*Who Will Administer the Funds?* Governors must distribute 85 percent of funds received through the formula grant program through private industry councils (PICs) or an alternate agency designated by the governor according to a needs-based formula. PICs administer federal Job Training Partnership Act (JTPA) funds in designated service delivery areas (SDA) and are charged with creating workforce development programs and promoting economic conditions to support new employment. The United States is currently divided into a total of 637 PICs, including 52 in California.

The WtW grant program requires PICs to administer funds in coordination with the chief elected

officials in the area represented. The law gives PICs the “sole authority” to determine how to spend the funds they receive. Governors may designate an alternate agency to administer the grant funds for one or more service delivery areas if the Secretary of Labor determines that the alternate agency can more effectively implement the program in a particular area. However, states cannot request a statewide waiver and, instead, must submit requests for waivers on a SDA by SDA basis.

Federal law requires funds to be distributed within the state based on three allocation factors: the number of persons in excess of 7.5 percent of the SDA’s population with incomes below the poverty level; the number of adults receiving TANF/AFDC for 30 or more months; and the number of unemployed persons in the SDA. The first factor (the number of persons in poverty) must be given at least 50 percent weight in the allocation formula. States have the option to base up to half of the weight of the allocation formula on

### What Are Private Industry Councils?

PICs (also known as workforce development boards) are locally organized, privately led boards appointed by local chief elected officials (CEOs). They derive their authority from formal legal arrangements made with CEOs, and serve as full partners with local governments.

#### Membership

Each PIC is required to have at least 16 members and a majority must be representatives of the private sector, including the chair. By law, at least 15 percent of the PIC membership must be representatives of organized labor and community-based organizations. The remainder of the board must include representatives of educational agencies, vocational rehabilitation agencies, public assistance agencies, economic development agencies, and the public employment service. Members are appointed by the chief elected official (CEO), usually the mayor of a large city or the county supervisor in the SDA, from a list of nominations made by the various represented stakeholder groups on the PIC. Terms on the board are staggered and the length of term varies from PIC to PIC.

#### Oversight

Local elected officials have a great deal of authority over PICs. State governments also have several oversight functions. Final authority over the PIC system, however, belongs to the federal Department of Labor.

PICs are required to submit workforce development plans every two years. They must also make their records available to the public and hold public hearings on important matters.

either or both of the other two factors.<sup>3</sup>

The factor(s) used to allocate funds will have a significant influence on the amount available to individual PICs. In particular, twelve of California's SDAs do not meet the excess poverty test (i.e., the number of persons living in poverty in the SDA is below 7.5 percent) according to estimates prepared by the Legislative Analyst's Office (Table 1). Formulas taking into account either the number of long-term TANF/AFDC recipients or number of unemployed result in allocations to all California SDAs.

The remaining 15 percent of a state's grant may be distributed by the Governor to other projects that are targeted toward helping long-term recipients of TANF/AFDC find employment. If California receives the maximum grant amount, a minimum of \$28.6 million will be available in 1998 for this category of programs. While federal law gives broad authority to the Governor to allocate this pool of funds, Welfare-to-Work grant funds must be appropriated by the Legislature.

***What Must States Do To Secure Their Share Of Federal Funds?*** States must spend one dollar of their own (or a local agency's) on activities specified in federal law in order to claim two dollars in federal WtW funds. This is referred to as the match requirement. Amounts counting toward the required Welfare-to-Work grant match must be in addition to amounts counting toward a state's TANF maintenance of effort (MOE) requirement for the fiscal year in which funds are received.<sup>4</sup> Therefore, for each dollar spent in excess of the TANF MOE requirement, the state can receive two federal grant dollars up to the amount of the state's allotment. Funds counting toward the match do not have to be spent by a PIC or alternate agency in a service delivery area. States that partially meet the spending match requirement can receive a pro-rated share of their full allotment. Those states that are not willing to match available funds will forfeit their share to other states.

In order to receive the maximum allocation of federal funds, California must spend approximately \$95 million in 1998 as a state match. In addition, the state must meet the federal TANF MOE requirement, totaling approximately \$2.9 billion in combined state and local expenditures.<sup>5</sup>

DoL regulations allow up to half of a state's match to be in the form of in-kind contributions. Local and private expenditures for allowable activities will count toward meeting the spending match requirement as well. However, match requirements may not be met by employers' share of participant wage payments.

***State Plan.*** In order to claim WtW funds, a state must also submit an addendum to their TANF plan to the DoL and the Department of Health and Human Services (DHHS). The addendum must describe how a state plans to use available funds, the formula that will be used to distribute funds within the state, the amount of funds the state plans to expend during the fiscal year, any requests for waivers from PIC administration, and a description of the consultation and coordination process used to obtain input from local entities. Finally, the plan must contain assurances by the governor that the PIC or alternate agency will coordinate WtW funds with TANF funds.

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<sup>3</sup> SDAs that would receive less than \$100,000 under this formula will not receive funding. Allocations of less than \$100,000 are added to the state's discretionary grant fund.

<sup>4</sup> The basic TANF MOE requires state expenditures to reach 80% (or 75% if the state meets TANF participation rates) of state expenditures in FY 94 for AFDC, JOBS, Emergency Assistance and the IV-A child care programs.

<sup>5</sup> *California Update* (Legislative Analyst's Office, September 1997).

## COMPETITIVE GRANT PROGRAM

One quarter of the funds available each year will be distributed by the DoL through competitive grants to local governments, PICs, and private entities such as community development corporations, community action agencies, and other private organizations applying in conjunction with a PIC or local government. Applications submitted by private entities must certify that the PIC or local government has been consulted during the application process and that the activities proposed will be coordinated with the PIC or local government's own Welfare-to-Work efforts. There is no spending match requirement for competitive grants.

Federal law outlines a set of criteria that will be used to judge applications for competitive grant funds, including:

- The proposed project's potential to move TANF recipients into unsubsidized employment, especially into labor markets that have a shortage of low-skill jobs;
- The proposed project's ability to expand the base of knowledge about programs aimed at moving TANF recipients from welfare to work;
- An applicant's track record in assisting individuals with multiple barriers find employment;
- An applicant's ability to access private, state, and local resources;
- An applicant's plans to work with other organizations; and
- The use of current or former welfare recipients as mentors, case managers, or service providers.

## WHO DOES THE WELFARE-TO-WORK GRANT PROGRAM TARGET?

Both competitive and noncompetitive Welfare-to-Work grants are intended to benefit TANF recipients who are likely to have the most difficulty finding long-term employment opportunities. At least 70 percent of funds received by states must target individuals who have received assistance for at least 30 months or will become ineligible for assistance within 12 months and face at least two of the following barriers to employment:

- Lack of a high school diploma or GED and exhibit low reading or math skills;
- A need for alcohol or drug treatment prior to employment;
- A poor work history.

Targeted funds may also be used for recipients or former recipients who have reached the federal or state lifetime limit on receipt of assistance and who meet the criteria listed above and for non-custodial parents of minors whose custodial parents meet the above criteria.

Up to 30 percent of WtW grants can be spent on recent recipients of TANF or non-custodial parents of TANF children who have characteristics associated with long-term welfare usage, such as school dropout, teen pregnancy, or poor work history. States can establish specific eligibility criteria for services for individuals qualifying as non-custodial parents or persons who have characteristics associated with welfare dependence.

## WHICH ACTIVITIES ARE ALLOWED?

Welfare-to-Work grant funds may be used to support community service or work experience programs; create jobs through public or private sector wage subsidies; establish individual development accounts, job placement, readiness, and post-employment services; and job retention or support services. Grant funds may also be used for transportation, substance abuse treatment, child care, and housing assistance if these services are not otherwise available. Basic education or independent training activities cannot be funded with Welfare-to-Work funds unless they are provided as a post-employment service where the recipient is employed in either a subsidized or unsubsidized job.

Both competitive and noncompetitive WtW grants are subject to a 15 percent cap on administrative expenditures. Costs for information technology and computerization needed for tracking and monitoring participants' progress will not be applied toward the 15 percent limit. All WtW grants must be expended within three years of the effective date of the grant award. The required state match must be spent within the fiscal year the grant money is received. However, Congress is considering an amendment that would allow matching funds to be spent over the same three-year period.

## **HOW DO WELFARE-TO-WORK ACTIVITIES AFFECT TANF ASSISTANCE TIME LIMITS?**

Noncash assistance provided with WtW grant funds will not be considered "assistance" under TANF and will, therefore, not be counted toward the five-year limit on a family's use of federal TANF funds. Direct or indirect cash assistance such as wage subsidies, however, will be counted. Furthermore, if a Welfare-to-Work participant is involved in an activity that does fall under the TANF definition of receiving assistance, then the participant is subject to other TANF requirements, including work participation requirements, child support requirements, and data collection requirements. States may use WtW funds to provide work related services to individuals who have reached the sixty-month limit for federal TANF assistance.

## **GRANT PROGRAM INCLUDES WORKER PROTECTIONS**

Participants in activities supported by WtW grant funds are afforded greater worker protections than those provided for TANF recipients, in general. However, the protections apply only to activities supported by Welfare-to-Work funds. Safeguards include prohibitions on the displacement of existing workers, workplace health and safety protections, anti-discrimination language, and the requirement for states to institute a grievance procedure. Specifically:

- *Nondisplacement*: Employers may not intentionally lay off or terminate a worker or involuntarily reduce a worker's number of hours to less than a full time work week with the intention of filling the vacancy with a Welfare-to-Work grant participant. In addition, existing contracts for services or collective bargaining agreements cannot be violated due to Welfare-to-Work activities without the written consent of both the labor organization and employer involved.
- *Health and Safety*: All health and safety standards that apply to the working conditions of employees under federal and state laws must equally apply to the working conditions of Welfare-to-Work program participants, including the authority of states to require worker's compensation insurance coverage.
- *Nondiscrimination*: Participants in programs supported by Welfare-to-Work grant funds may not be discriminated against by reason of gender.
- *Grievance Procedure*: Each state receiving Welfare-to-Work funds must establish a procedure for handling complaints from employees alleging violations of nondisplacement requirements and from

Welfare-to-Work participants alleging violations of nondisplacement, health and safety, and nondiscrimination requirements. The grievance procedure must also include the opportunity for a hearing and an appeal to a state agency (other than the agency administering the Welfare-to-Work or TANF programs) or to an independent review board within the administering agency.

## **GRANT PROGRAM RAISES A NUMBER OF POLICY CONSIDERATIONS**

The WtW grant program provides a valuable resource for local communities struggling to move individuals from welfare to work. Elements of the program's structure, however, raise a number of policy considerations and concerns. Some states have indicated that they may choose not to participate in the program because of an inability or unwillingness to spend state funds to meet the matching fund requirement. Local and private expenditures will be allowed as some or all of a state match. This option, however, may encourage states that would otherwise provide the matching funds to shift the obligation to local communities.

In addition, the DoL strengthened the role of PICs, which have the "sole authority" to determine which individuals and activities will receive WtW grant funds. Although states can apply for a waiver to give an alternate agency the authority to administer the funds for a particular area, the burden of generating several individual waivers may discourage states from designating alternate agencies and may prompt states to be even more reluctant to provide matching funds. Governors do, however, have some leverage over PICs. Governors establish general standards for PIC oversight responsibilities and are responsible for determining whether PICs are in compliance with a state's Welfare-to-Work plan. Furthermore, the 15 percent of WtW funds retained by Governors could be used as an incentive to influence the way PICs use their portion of the funds.

Some observers have also questioned whether PICs are the most appropriate entity to administer the grant program. Critics argue that PICs have not traditionally served the population targeted by the grant program. Moreover, a variety of entities, including counties and community colleges, are already involved in Welfare-to-Work services and vesting an additional type of service provider with substantial responsibility enhances the need for coordination and collaboration.

Competitive grant funds may be used to support a range of innovative programs and services. Applicants for funds must, however, develop proposals within a very tight time frame, which may limit the number of proposals submitted.

Finally, the short-term nature of the program may discourage some states and service providers from applying for funds. At present, Congress has authorized funding for the grant program for only two years.

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