Relieving the Recession:

Nineteen Ways States Can Assist Low-Income Families During the Downturn

Edited by

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CENTER ON BUDGET AND POLICY PRIORITIES

The **Center on Budget and Policy Priorities**, located in Washington, D.C., is a non-profit research and policy institute that conducts research and analysis of government policies and the programs and public policy issues that affect low- and middle-income households. The Center is supported by foundations, individual contributors, and publications sales.

February 2002

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Acknowledgments

The Center on Budget and Policy Priorities is grateful to the Annie E. Casey Foundation for their designated support for this report.

We also are grateful to the other funders of the Center's state work: Butler Family Fund, Nathan Cummings Foundation, Ford Foundation, Foundation for Child Development, Friedman Family Foundation, George Gund Foundation, Joyce Foundation, Kaiser Family Fund, W. K. Kellogg Foundation, John D. and Catherine T. MacArthur Foundation, A. L. Mailman Family Foundation, MAZON: A Jewish Response to Hunger, Moriah Fund, Charles Stewart Mott Foundation, Open Society Institute, David and Lucile Packard Foundation, William Penn Foundation, Public Welfare Foundation, Charles H. Revson Foundation, Rockefeller Family Fund, Rockefeller Foundation, and an anonymous donor. We also thank the William and Flora Hewlett Foundation for their support of work on strategies to help recently unemployed workers.

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Introduction

Over the past year, millions of families have lost jobs, income, and health insurance as a result of the recession, which formally began in March 2001 and intensified as a result of the events of September 11.

- Unemployment rose from 3.9 percent to 5.8 percent between October 2000 and December 2001, an increase of 2.7 million people. The service industry, which employs a high percentage of low-income workers, has been particularly hard-hit by this downturn as compared to past recessions.
- In January 2002, the employment rate (a broad measure of labor demand) fell to its lowest level since the summer of 1994.
- Two million unemployed workers are likely to exhaust their regular weeks of unemployment insurance benefits in the first six months of 2002.
- The Kaiser Commission on Medicaid and the Uninsured has estimated that each 1 percent increase in unemployment increases the number of Americans who lack health insurance by about 1.2 million.

While some recent economic indicators suggest that the recession may have bottomed out, low-income families seeking employment are unlikely to feel the benefits of a recovery soon. Unemployment is generally a lagging indicator of economic health. The Economic Policy Institute predicts that overall unemployment during the current downturn will peak at the end of 2002 and that minorities and female heads-of-household will suffer the greatest job losses. And in the past three recessions, the unemployment rate did not return from its peak to pre-recession levels until about five years after the recession technically ended.

States can mitigate the recession's harsh effects on low-income families by re-examining the policies they have adopted for various low-income programs. These programs play two critical roles during an economic downturn: they provide relief to families whose income falls as a result of job loss or reduced work hours *and* help stabilize the state's economy by bolstering spending among low-income families. Yet low-income programs can be effective in these roles only to the degree that they reach the families in need.

State policies restricting eligibility for low-income programs, which may be appropriate during an economic expansion, may become inappropriate during an economic downturn because they erect barriers to helping newly unemployed or underemployed families. For example, strict work requirements and time limits for welfare recipients make little sense if families are unable to find work because of high unemployment. Similarly, restrictive asset limits in public assistance programs can bar newly jobless families from needed benefits such as food stamps and health insurance because these families own a car they will need to find and retain a new job. Policies such as these should be re-examined and, in many cases, revised.

A recession also may create new opportunities and incentives to improve low-income policies. For example, the growth in public assistance caseloads during a recession (and the additional administrative burdens that result) increase the value — to states as well as low-income families — of simplifying these programs' application and re-certification procedures. Also, state budget constraints may increase the attraction for states of taking greater advantage of federal funding sources for low-income assistance.

The Scope and Structure of This Report

This report considers an array of measures that states can adopt to meet the needs of families adversely affected by the economic downturn. It consists of 19 short policy briefs that are grouped into two categories:

- Program modifications designed to assist more low-income families harmed by the recession and to improve benefits for those already being assisted.

- Fiscal strategies designed to help states devote adequate resources to low-income programs while addressing budget shortfalls created by the recession.

Many states indeed face severe funding constraints: the National Governors Association estimates that state budget deficits for the current year already exceed $40 billion due to falling revenues and increased spending pressures. However, the initiatives outlined in this report have only modest costs and can be paid for at least partially with federal funds. (One of the programs discussed, food stamps, is wholly federally funded.) Funding issues are examined at the end of each policy brief; greater detail about various funding streams can be found in the Appendices.

This report does not present an exhaustive list of states' options to assist low-income families during a recession. Nor would every proposal be suitable for every state. Instead, this report shows the range of measures that are open to states.

Because the report's format does not allow for an in-depth examination of the proposals, readers interested in learning more about them should consult the list of resources in Appendix I. Further information and technical assistance are available from the Center on Budget and Policy Priorities.

Modifying Welfare Time Limit Policies

Proposal

To make cash assistance available to certain families affected by the economic downturn by modifying policies providing exemptions from, or extensions to, welfare time limits.

Rationale

The 1996 welfare law prohibits states from using federal TANF funds to provide assistance to families with an adult for more than 60 months. States are permitted to impose their own time limits that are shorter than 60 months, and 20 states have done so.

Time limits were intended to encourage work and prevent long-term dependence on welfare. However, in many states, families are reaching time limits at the same time the country is experiencing an economic downturn.

There are several reasons why states should revisit their time limit policies. First, a significant number of parents who recently moved from welfare to work are losing jobs (or are being forced to work reduced hours) and cannot return to welfare because they already have reached their time limit. Many of them either have exhausted their weeks of unemployment insurance (UI) benefits or were ineligible for UI due to their limited work history. TANF assistance would provide income and connect recently unemployed individuals to employment services.

Second, many families that have *not* reached time limits are still receiving assistance and have not found employment. These families tend to have more barriers to employment than families that left welfare for employment. Having failed to find jobs during the strong economy of recent years, these families will have even more difficulty gaining employment in today's more-competitive labor market.

Third, about one-third of families receiving welfare are working, though their earnings are not high enough to disqualify them for assistance. Many of these families will not be able to increase their earnings enough to leave assistance during a recession and are at risk of exhausting their months of cash assistance. Also facing this risk are working families who return to welfare when their work hours are reduced during the recession.

As of February 2002, time limits have been reached in 36 states. Most of the remaining states will reach time limits by July 2002. Recent estimates suggest that as of October 2001, more than 120,000 families had lost assistance as a result of time limits. It should be noted, though, that the full impact of time limits is not yet known. Most welfare recipients tend to cycle on and off assistance, and some studies have found that most recipients reach time limits two to three years after the time limit takes effect in the state.

Design Options

There are a number of ways states can modify their time limit policies to respond to the needs of low-income families during a downturn. States can provide *exemptions* from time limits, under which a certain period of assistance does not count toward the family's time limit. (This is known as "stopping the clock." Many states provide permanent exemptions to certain groups of TANF recipients, such as recipients with disabilities.) States also can provide *extensions* of time limits, under which aid may be continued even though the family has reached its time limit. Exemptions and extensions can be based on personal characteristics, such as health problems or low job skills, or on economic conditions. Specific steps states can take include:

- **Exemptions or extensions based on economic conditions.** States can offer exemptions or extensions from the time limit for families living in economically depressed areas of the state that cannot find employment. Alternatively, states can impose a trigger that extends benefits for families during a national recession, or when national unemployment levels reach a certain rate.

Roughly eight states take unemployment levels into account in their time limit policies. Florida grants exemptions from time limits to individuals that comply with work activities if they face "significant barriers" to employment, such as living in an area with a local labor surplus, high unemployment, or underemployment. In Louisiana, individuals can receive an extension of time limits if "factors relating to job availability are determined to be unfavorable." These include high unemployment in the region and a lack of employers within a two-hour round-trip commute that are hiring.

- **"Stopping the clock" for working families.** State policies that do not count toward the state's time limit any months in which a family is working are particularly important both for families that have had their work hours reduced as a result of the recession and for families with very low earnings. Five states stop the clock for families that are working. Illinois and Rhode Island do so for families working at least 30 hours per week. Maryland does so for families that are working any number of hours.

- **Earned extensions for working families.** States can extend months of assistance to families that reach time limits based on their period of employment. For example, if a parent worked a certain number of hours during 10 of the months she was receiving assistance, she could qualify for a 10-month extension. This would enable families that have lost jobs to return to assistance even if they have already reached the time limit. In Florida and Utah, extensions are provided to families reaching the state's time limit (both states have time limits that are shorter than 60 months) but neither state provides extensions beyond 60 months. States can provide earned extensions beyond 60 months using state maintenance-of-effort (MOE) funds.

- **Exemptions or extensions for families that are "playing by the rules."** In 20 states, recipients can receive extensions if they have made a good faith effort to find employment but remain unemployed. Generally these states require that the adult participate in work activities without having been sanctioned for noncompliance. In Tennessee, for example, to qualify for a good faith effort extension, the adult must be complying currently and must not previously have been sanctioned for more than three months. In Connecticut, on the other hand, families with more than one sanction can "restore good faith" and qualify for a good faith effort extension by complying with a new work plan through the state's Worksteps program.

Funding

States generally are restricted from using federal TANF funds to provide assistance to families that include an adult beyond 60 months. However, states have some flexibility to use TANF funds to provide assistance to families affected by a recession. They also have complete flexibility to use MOE funds for this purpose.

- The 20 states with state time limits that are shorter than 60 months can use TANF funds to provide time limit extensions to families that have reached the state time limit but have not yet reached the federal 60-month limit.

- States may extend TANF-funded benefits beyond the federal time limit for up to 20 percent of the state's average monthly caseload based on hardship, as defined by the state. Families affected by a recession can be included in this 20 percent group. However, states may choose to reserve this option for families with barriers to employment that are unrelated to economic conditions.

- States may use MOE funds to extend benefits beyond 60 months for any group of families the state chooses, such as those that have lost jobs and are in high-unemployment areas. MOE funds also can be used for exemptions for families that have not yet reached the time limit. For example, states may stop the clock for families that are working or making a good faith effort to find a job.

Providing Short-Term Aid to Meet Temporary Emergencies

Proposal

To provide families with short-term aid, such as help with housing costs or car repairs, so they can meet temporary needs and retain their jobs (or secure new jobs more quickly).

Rationale

Many low-income families experience temporary financial crises that can jeopardize family stability or a parent's employment. Loss of income or unanticipated expenses often cause poor families to fall behind on rent or utility payments, posing the threat of eviction or a utility cutoff. Also, a car breakdown may disrupt work or training activities if parents lack the money for necessary repairs. In instances like these, failure to intervene quickly on a family's behalf can have devastating consequences.

Short-term aid can be particularly important during an economic downturn. Employers making layoffs may be more likely to let go of workers with poor attendance records, and those who are laid off will have greater difficulty finding another job because of higher unemployment.

According to an Urban Institute study, nearly one-third of single-parent families with children that had incomes below twice the poverty line in 1999 (almost $28,000 for a family of three) had problems paying a rent, mortgage, or utility bill in the previous year. Over 40 percent of the families had experienced food shortages or worried about running out of food due to lack of money. These findings suggest that short-term assistance can play an important role in stabilizing families and avoiding the need for long-term cash assistance. The current level of need for short-term assistance is likely to be significantly higher than those figures indicate due to the recession.

Design Options

A number of states have recognized the potential benefits of providing short-term aid to families experiencing temporary crises. More than 30 states operate "emergency assistance" programs, which typically provide aid to prevent homelessness or utility cutoffs. In most of these states, families may receive short-term aid whether or not they are receiving welfare benefits.

In addition, 23 states — including some of the states with emergency assistance programs — operate "cash diversion" programs, which make one-time cash payments to needy families, usually with an expectation or requirement that the family not apply for welfare benefits within a specified period. Diversion programs generally are designed to serve families that are working or ready to work but need temporary help to maintain or obtain employment.

States have great flexibility to create emergency assistance or diversion programs or to expand existing programs. States that wish to take advantage of these opportunities should address the following questions:

- **What are reasonable income eligibility limits?** Because short-term aid may prevent the need for greater expenditures on future cash assistance, states should consider broad eligibility criteria that include near-poor families with income above the limits set for cash assistance. Most current emergency assistance programs serve low-income families not on welfare in addition to welfare recipients, but most existing cash diversion programs are limited to families that are eligible for welfare benefits. This latter restriction limits states' ability to use short-term aid to help working poor families remain employed and off cash assistance.

- **For what purposes may aid be used?** While state programs that offer short-term aid often specify the purposes for which the aid may be used (such as payment of utility bills, first month's rent on a new apartment, or car repair costs), some flexibility to address unanticipated problems or needs can be very useful. Many diversion programs allow families to choose how to best meet their short-term needs. While a set of guidelines for short-term aid is necessary to ensure equity across the system, the most effective short-term aid programs provide caseworkers with some flexibility in identifying families in need of aid, as well as the type or amount of aid (up to reasonable limits).

When determining the allowable uses of short-term aid, states should consider allowing aid to be used to pay back rent as well as current bills. Families often are faced with both sets of bills, but few programs currently are designed to address both.

- **For what duration should aid should be provided?** Families should receive enough months of rental help to enable them to remain in their home throughout a period of temporary unemployment. Under federal rules, if a family receives TANF-funded assistance for more than four months, the months of assistance count against the family's five-year lifetime limit. Nevertheless, in certain circumstances more than four months of assistance will be needed.

- **How will receiving short-term aid affect a family's eligibility for other benefits?** Some states count months in which a cash diversion payment is received toward the state's welfare time limit and/or prohibit families from receiving other cash welfare benefits for a specified time period. Some states also permit only one emergency assistance payment in any 12-month period, following prior AFDC rules. These restrictions are not required under the TANF regulations and may limit program effectiveness. Faced with uncertainty about their future ability to meet family needs, parents may turn down diversion aid and instead begin to receive ongoing cash assistance if the diversion payment would make them ineligible for welfare for an unreasonably long period.

Funding

States can fund short-term aid programs using TANF funds, Title XX Social Services Block Grant funds, state maintenance-of-effort funds, or other state funds.

States wishing to use TANF funds for these programs must address the critical issue of time limits. To help the greatest number of families, a short-term aid program should not be limited to families that already have reached their time limit for TANF-funded assistance (and thus are ineligible for TANF-funded cash assistance). It also should assist families that have not reached time limits *without* having the months of assistance count against the families' time limits, thereby enabling these families to save their months of TANF eligibility for a future period of need.

Federal rules limit the types of help that may be provided without triggering the TANF time clock. TANF funds may be used for short-term assistance without running a family's time clock (or for families that have exhausted their 60 months of federal TANF assistance) if the assistance lasts for no more than four months or is in the form of a one-time nonrecurring payment, such as a lump-sum payment for back rent. In addition, TANF funds may be used to provide ongoing work supports to employed parents without running the family's time clock as long as the supports are not used to meet basic subsistence needs such as food, shelter, and clothing.

For example, if a parent is working but has been struggling to make rental payments on time and now risks eviction, the state or county can use TANF funds to pay all rental arrears and to pay rent for up to four months prospectively. This short-term aid will not count toward the family's time limit but will help thwart the downward spiral likely to occur if the family becomes homeless, which would jeopardize the parent's ability to hold on to her job.

See Appendix A for state-by-state data on unspent TANF funds.

Providing Transitional Jobs to Unemployed Workers

Proposal

To provide transitional, publicly-funded employment to newly jobless workers or those who cannot find employment by expanding existing jobs programs or converting unpaid community work positions into wage-based jobs.

Rationale

With unemployment rising because of the economic downturn, and welfare recipients in many states losing assistance because of time limits, transitional jobs programs can address two important labor market challenges.

First, low-income individuals often are employed in sectors that are sensitive to economic swings (such as the hospitality industry) and thus are susceptible to layoffs. They also are likely to have trouble finding new jobs after an economic downturn: the unemployment level of disadvantaged workers — including those with low education and skill levels — remains high for months or years after a recession ends.

Second, many welfare recipients have not been able to find jobs, even during a strong economy. These long-term recipients often have barriers to finding and maintaining employment, such as physical or mental impairments, learning disabilities, and domestic violence problems. Many have reached or will soon reach time limits on receipt of cash assistance.

Transitional jobs programs can enable individuals that have trouble finding and maintaining employment to earn wages and gain valuable work experience, improving their subsequent employment rates and earnings. A study of Washington State's transitional jobs program, for example, found that it increased participants' employment rates by 33 percent and increased earnings by almost $800 per quarter. The study also found that the program had larger effects on employment rates and earnings levels than most other work activities. Results like these are especially impressive given the fact that participants in transitional jobs programs generally are less "job-ready" than other welfare-to-work participants, with lower education levels, less work experience, and other barriers to employment.

Transitional jobs programs have several advantages over cash assistance. Earnings from these programs make participants eligible for the federal or state earned income tax credits, which can provide substantial additional income. And because these earnings are not considered "assistance" under federal law, participants in TANF-funded transitional jobs programs do not have to meet TANF requirements such as those relating to time limits or child support.

Design Options

Currently, four states (Washington State, Pennsylvania, Georgia, and Minnesota) and 30 cities operate transitional jobs programs. Programs typically offer temporary, wage-paying jobs for 20 to 35 hours per week. Placements are usually in public or non-profit organizations, although some programs subsidize private-sector jobs. Programs commonly include access to job readiness services and training in such areas as vocational skills, basic education, and "soft skills" (for example, the importance of good attendance). Frequently, programs also offer services such as intensive case management or English-as-a-Second Language instruction to help participants overcome work barriers.

While a transitional jobs program can provide an important strategy for helping disadvantaged individuals move into stable employment, states may be hesitant to initiate programs during an economic downturn. Implementation can be time-consuming, and states may fear that the economic environment will change by the time the jobs are created. However, states can expand existing infrastructure by: 1) expanding transitional jobs programs to serve individuals affected by the economic downturn, and 2) converting unpaid community work programs into wage-paying transitional jobs programs.

- **Expanding existing transitional jobs programs.** Many transitional jobs programs are relatively small and serve only specific populations. They can be expanded to serve individuals that are especially hard-hit by a recession. Programs currently implemented on a city- or county-wide basis can be expanded to cover a larger region, perhaps the entire state. State policymakers can promote the expansion of community-level projects by designating transitional jobs as an option within state welfare-to-work programs.

  Currently, the country's largest transitional jobs program is in Washington State. The program began as a pilot project in five sites with only 540 jobs but subsequently expanded statewide. Between 1998 and the end of 2001, it served approximately 7,000 people.

- **Transforming community work experience jobs into wage-paying jobs.** "Community work experience" refers to jobs in which welfare recipients work in exchange for their welfare grant. According to HHS, every state reported some recipients participating in unpaid work experience or community service jobs during fiscal year 1999. Nationally, 12 percent of all welfare recipients that were participating in a work activity in 1999 were engaged in community work experience.

  Converting these jobs into wage-paying jobs could provide significant added benefits for recipients at little cost to the state. In states with higher welfare benefit levels, the amount the state spends on cash assistance may be similar to half-time work at the minimum wage, while states with lower benefit levels might need extra funds to provide minimum-wage employment. States may need extra funds to pay payroll taxes. Other costs of transitional jobs programs, such as reimbursement of work-related expenses, training, and program administration, may require additional funds to the extent that these services are not already part of community work experience programs.

  In addition, since transitional jobs programs are most beneficial when they include services such as job placement and skill-building, the state should add these if they are not provided in the community work experience program. Most states already provide job search and placement through their welfare programs, so they should find it relatively easy to incorporate them into a transitional jobs program.

Funding

The two major federal sources of funding for most existing transitional jobs programs are TANF and the Welfare-to-Work program. If the state or county welfare agency administers the jobs program, it can allocate TANF funds to the program directly. If the jobs program is run by a non-profit agency, the state or county can provide TANF funds to the non-profit for this purpose.

Funds used for ongoing cash assistance also can be diverted to provide wages for participants. As noted, TANF funds can be used for transitional jobs programs without triggering time limits or other TANF requirements associated with ongoing cash assistance.

Welfare-to-Work grants are available to states and local communities to fund transitional jobs programs for long-term welfare recipients and noncustodial parents who have difficulty finding or maintaining employment. Local workforce investment boards distribute most of the money, which provides an opportunity to implement programs at the city or county level if the state does not wish to participate. See the Appendix for more information on these funds.

In addition, transitional jobs programs may be funded through Workforce Investment Act funds, various community development grants, Refugee Resettlement programs, and federal transportation programs. States also may use their maintenance-of-effort (MOE) funds for these programs.

See Appendix A for state-by-state data on unspent TANF funds. See Appendix B for state-by-state data on Welfare-to-Work funds.

Expanding Access to Education and Training

Proposal

To expand educational and training opportunities for low-income individuals that have recently lost jobs or cannot find employment.

Rationale

Historically, people with little education and low skill levels have been especially susceptible to job losses in bad economic times. An economic downturn, when jobs are scarce, is an ideal time for these individuals to participate in training or educational programs that can prepare them for higher-wage employment.

Research indicates that low-income workers, especially welfare recipients, have lower levels of education than the rest of the population. The Urban Institute found that 22 percent of heads of working low-income families lacked a high school degree or GED, compared to only five percent of heads of higher-income families. Another study found that welfare recipients were at an even greater disadvantage — 44 percent lacked a high school degree or GED.

Evidence also suggests that families reaching welfare time limits generally have lower educational levels than families that left welfare before the time limit. In a South Carolina study, almost half of adults that left welfare due to time limits lacked a high school degree, compared to 29 percent of those that left for other reasons.

Workers without a high school degree face substantially worse labor market prospects than those with higher levels of education. Data from past recessions suggest that adult female high school dropouts and those with a limited past work history and low skill levels experience large declines in employment in a slow economy. Even during economic expansions, these women remain at a serious disadvantage. In 1997, for example, women without a high school degree had an unemployment rate of 13–14 percent, compared to only 5–6 percent for high school graduates and 2.2 percent for college graduates. Furthermore, by 1997, unemployment for most groups of workers had returned to its level before the recession of the early 1990s, while unemployment for women with less than a high school education was still rising.

Educational and training programs can improve the economic prospects of low-skilled individuals. For example, women with higher educational levels tend to have more stable employment and higher earnings than those with lower educational levels. One study found that women with an Associate's degree earned 19 percent to 23 percent higher hourly wages than those without the degree; women with a Bachelor's degree earned 28 percent to 33 percent more than women without this degree.

In addition, state studies of former welfare recipients find that those with higher educational levels are more likely to be employed and have higher earnings. They also are less likely to return to assistance than those with less education.

While not enough is known about the employment impacts of specific training programs or of postsecondary education for welfare recipients, studies of welfare-to-work programs suggest that education and training for low-income individuals can produce lasting benefits. Programs employing a mixed strategy of work and education have stronger employment impacts than programs stressing one or the other.

Low-income workers that lose jobs during a recession also stand to benefit from education and training. One study found that even a single year of community college raised the earnings of displaced workers by about five percent.

Design Options

States can help welfare recipients enhance their skills and education by counting education and training toward state work requirements. States also can provide educational and training assistance to more low-income adults.

- **Counting education and training toward state work requirements.** Under the welfare law, states are free to define participation in vocational or postsecondary education as a work activity in their welfare programs. Most states initially restricted educational and training activities under welfare reform. More recently, however, many states have recognized the need to help welfare recipients advance in the labor market and now allow some or all of the state's work requirement to be met through educational activities. States that have not yet taken this step should consider doing so.

  In 18 states, welfare recipients can attend education or training (including college) with no additional work requirements. Illinois and Maine both suspend the welfare time clock for students in full-time education. In New York and Washington State, students receiving public assistance can count time spent in a work-study job or in an education-related internship toward welfare work requirements.

- **Providing educational assistance to low-income families.** States also can provide assistance and support services to a broader population of low-income students through separately-funded state programs. Vermont provides living stipends, child care, and other supports to all parents earning below 150 percent of the poverty line that enroll in post-secondary education. In Florida and Washington State, low-income working families can receive funds to pay tuition, child care, and other education-related costs.

- **Providing services through community colleges.** Some states (such as Washington and California) and counties work with community colleges to provide educational and training programs tailored to serve low-wage workers, both welfare recipients and non-recipients. These programs provide evening classes for working parents, transportation benefits, on-site child care, and supportive staff for those having trouble juggling school, work, and child care.

  In California, the New Visions community college program is designed to build educational skills needed for longer-term academic success while also developing occupationally relevant skills in the short term. It consists of a 24-week remedial skills program followed by an "occupational mini-program" that prepares participants for occupations such as nursing, police dispatch, office administration, and manufacturing and construction. Participants also work 20 hours per week throughout the program.

Funding

The welfare law permits states to use TANF or state maintenance-of-effort (MOE) funds for education and vocational training, including tuition and other educational costs, work-study programs, cash assistance for living expenses, and supportive services such as child care and transportation.

States may use MOE funds for these purposes without restriction. If TANF funds are used, the welfare law limits the extent to which states can count these activities toward their TANF work participation target. (States are required to place at least a certain percentage of adult TANF recipients in a specific set of work activities.) But because states receive credits toward this work participation target for reductions in their TANF caseloads, the large drop in TANF caseloads in recent years means states need not let this restriction deter them from using TANF funds for educational and vocational activities.

Workforce Investment Act funds also are available to postsecondary institutions to provide basic skills, literacy education, and GED programs to low-income individuals. In addition, under the Welfare-to-Work program, funds can be used for post-employment education and training, as well as for up to six months of pre-employment vocational education or training for "hard-to-serve" TANF recipients, former recipients, and noncustodial parents.

See Appendix A for state-by-state data on unspent TANF funds. See Appendix B for state-by-state data on Welfare-to-Work funds.

Continuing Child Care Subsidies When a Parent Loses a Job

Proposal

To prevent families that lose jobs from also losing the child care subsidies they will need to help them rejoin the work force.

Rationale

Low-income working families can receive child care subsidies through TANF or the Child Care and Development Fund (CCDF). Often, however, eligibility for these subsidies is tied to employment. As a result, many parents who become unemployed — including many of those who become jobless during the current economic downturn — are losing their child care subsidies as well.

Enabling these parents to retain child care can preserve family stability and help parents find work again quickly through activities like a job search or training. Continuing subsidies may be even more important for the child, who otherwise would have a change of child care provider. Research shows that the relationship between caretaker and child is critical to a young child's development.

Nonetheless, many states are unable to provide child care subsidies to all families that are currently eligible, let alone expand coverage to jobless parents. In deciding whether and how to expand coverage, states will need to weigh the needs of unemployed families against the needs of working families that are waiting for subsidies.

Design Options

States can help the greatest number of unemployed parents through a policy similar to that of the District of Columbia, which continues child care subsidies to parents automatically for 12 weeks following notification of a job loss. Several other, more-limited policies for jobless parents are outlined below. Because the design of each option is closely tied to its funding source (CCDF or TANF), funding issues will be considered here, rather than in a later section. Nonetheless, these measures also can be adopted for child care subsidies provided with other federal funds (such as the Social Services Block Grant) or state funds.

Under CCDF regulations, child care subsidies may be provided to any low-income family in which a parent is "working or attending a job training or educational program." This restricts but does not prevent the use of CCDF funds for child care subsidies for unemployed parents.

TANF funds may be used for child care subsidies whether or not a parent is employed. However, certain TANF-funded subsidies count as "assistance" if the parent is unemployed, which means that the months of assistance count against a family's TANF time limit and TANF work participation, child support assignment, and federal reporting requirements apply. This does not affect families that are receiving TANF cash assistance, to whom those requirements already apply. It does affect families that are not receiving other forms of TANF-funded assistance.

When financing child care subsidies with TANF funds, states should design them in such a way that they do not count as assistance. This will avoid placing additional burdens on a family at the time of a job loss. Short-term benefits do not constitute assistance if they are designed to deal with a specific crisis situation or episode of need and do not extend beyond four months.

Ways states can use CCDF and TANF funds for child care subsidies to jobless parents include:

- **Continue subsidies to parents who are engaged in a job search.** Under CCDF regulations, states define "working," so they can include in that definition (and provide child care subsidies to) parents engaged in a job search. Most states have such a policy but provide subsidies to these parents only for a limited time, typically 30 days. These states could extend the duration of the allowable job search. (Massachusetts, for example, has an eight-week limit, while Idaho has no limit.) In states like California and Colorado, which have county-run subsidy programs, counties that do not take advantage of their state's expanded definition of "working" could do so. Other states could expand their definition to include a job search.

All states allow families receiving TANF cash assistance to receive child care subsidies while looking for work, but roughly half of the states limit the duration of such subsidies. States with time-limited job search subsidies could extend the period in which parents are allowed to look for work.

- **Continue subsidies to parents who are enrolled in job training or education. U**nder CCDF regulations, subsidies may be continued to a jobless parent who is enrolled in or enters a training or educational program. States define "job training or education program" and thus have considerable flexibility to extend child care subsidies to parents preparing to re-enter the workforce. However, states may provide subsidies only for the number of hours that the parent attends a training or educational program. Since some child care providers are unable to maintain the slot without receiving full-time reimbursement, part-time subsidies may not allow for continuity of child care.

  Generally, families receiving TANF cash assistance and enrolled in job training are eligible for child care subsidies. In some states, however, recipients of TANF cash assistance are ineligible for child care subsidies if their training or educational activities do not count as "work" under the state's TANF guidelines. In those states, greater flexibility in TANF regarding what counts and for how long would help families retain subsidies.

- **Extend the time period families can receive subsidies without reporting changes in their circumstances.** Whether using TANF or CCDF funds, states determine both the length of the eligibility period for child care subsidies and the reporting requirements for changes in family circumstances during that period. States could use this flexibility to continue child care subsidies for a fixed duration after a parent loses a job. Colorado, for example, allows parents 30 days to report a change in employment status.

  Alternatively, states could require a family to report a period of unemployment only if it lasts longer than four months. As noted above, states may provide TANF-funded assistance for up to four months without triggering TANF requirements such as time limits. Not requiring families to report brief periods of unemployment would be consistent with HHS policy, which encourages states to design policies that minimize disruptions to child care resulting from temporary unemployment.

  On the other hand, parents who remain eligible for a child care subsidy despite losing a job (if, for example, they are engaged in a job search) might want to report the job loss regardless of reporting requirements in order to qualify for reduced copayments, since copayments often are tied to income. An HHS study found that median copayments for single parents with incomes between $15,000 and $20,000 range from 11 percent to 17 percent of their total incomes for just one child in center-based care. These copayments will be especially burdensome for unemployed parents.

- **Provide subsidies to unemployed parents through a separate program.** States could use their own funds to provide separate payments to reduce a family's out-of-pocket child care expenses during a period of unemployment, and count those funds toward meeting their TANF maintenance-of-effort (MOE) requirement. As long as states use state MOE funds that are not co-mingled with TANF funds, they may provide these subsidies indefinitely without triggering a family's TANF time clock.

Preventing Evictions and Foreclosures

Proposal

To prevent families from losing their homes as a result of evictions or mortgage foreclosures by establishing grant or loan programs to provide temporary help to families unable to pay their housing costs.

Rationale

Families that lose their jobs or work reduced hours as a result of an economic downturn are likely to fall behind on rent or mortgage payments, even if they receive Unemployment Insurance or other benefits. Recent data show a sharp increase in delinquent mortgage payments, particularly for low-income recent homebuyers.

For example, among low- and moderate-income homeowners with mortgages insured by FHA, 11 percent were more than 30 days late in making their mortgage payments in the third quarter of 2001. This is the highest level since the Mortgage Bankers Association began tracking these data in 1972. More than a third of these homeowners were 90 days or more behind on their payments. Nearly one percent of all mortgages were in the process of being foreclosed by lenders during the third quarter of 2001.

While no national data on evictions from rental housing are available, the U.S. Conference of Mayors reports an increase in requests for emergency food or shelter in most of the cities surveyed in the fall of 2001 compared with the previous year. Cities were unable to meet these increased needs. More than a third of the households that requested emergency food in 2001 had to choose between paying for food and paying their rent or mortgage bill, and nearly one of every five of these households was late in paying the previous month's rent or mortgage bill, according to a recent study by America's Second Harvest.

Providing temporary rent or mortgage assistance to enable a household to stay in its home is less expensive — and far less disruptive to the family — than providing emergency shelter after the family has lost its home. Studies have found that the average cost of preventing a family's eviction or mortgage foreclosure is about one-fourth or less of the cost of providing the family with emergency shelter.

Because most families that lose their housing "double up" with relatives or friends for as long as they can rather than resort to shelter facilities, it is difficult to compare the overall cost of a program to prevent evictions and foreclosures with the potential savings in emergency shelter costs. For the families that are able to remain in their homes, however, the benefits are substantial. A growing body of research demonstrates that stable housing promotes parents' employment and improves educational outcomes for children. Homeowners also are able to retain the equity accumulated in their homes.

Design Options

Roughly half of the states have some kind of program to prevent evictions and/or foreclosures, though the programs vary in the demographic and income groups they serve, the amount of assistance they provide, and so on. Below are some elements states should consider including in such programs:

- **Pay a sufficient number of months of housing expenses to match the likely period of unemployment.** To be effective, an eviction or mortgage foreclosure prevention program must provide sufficient months of assistance to tide a family over during a period of temporary unemployment. Oregon's Low Income Rental Housing Assistance Program, which is designed in part to prevent eviction of workers laid off from their jobs, provides rent payments for up to six months.

- **Cover prospective as well as overdue housing payments.** Eviction or foreclosure prevention programs rarely pay overdue bills *and* subsequent current bills. Unemployed workers, however, are likely to need both types of payments. Virginia's SHARE Homeless Intervention Program pays up to nine months of rent, six months of which can be for current and future rent.

- **Combine a program that provides rent arrears with emergency preference for federally-funded housing vouchers.** The Boston Housing Authority gives first preference for federal housing vouchers to applicants that are subject to court-ordered eviction due to non-payment of rent when the applicants' rent exceeds 40 percent of their income. These vouchers cannot be used to pay past-due rent. However, if these families pay their overdue rent and persuade their landlords to accept the housing voucher for future rent payments, they may be able to avoid moving. Massachusetts provides up to three months of rent arrears (paid with state and federal TANF funds) to avoid eviction of families with children with incomes up to 130 percent of the federal poverty level.

- **Make loans to prevent mortgage foreclosures and provide counseling assistance to renegotiate mortgage terms.** Many states that provide assistance to renters to prevent eviction do not provide parallel assistance to homeowners with the same income. A state could structure a program for homeowners in the form of loans rather than grants. The loan could be required to be repaid on sale of the property. In addition, families may be better able to retain their homes in the future if they refinance their mortgages to reduce monthly payments. Financial counseling assistance can help families benefit from such options.

Funding

In addition to state funds, there are several types of federal block grants that can be used for eviction and mortgage foreclosure prevention programs.

- TANF funds can be used to provide grants or loans to families with children to prevent eviction or foreclosure. As of 1999, 20 states used TANF funds for eviction prevention for families not eligible for TANF monthly cash assistance. TANF-funded payment of overdue rent or mortgage bills, for *any* number of months, will not count against families' 60-month federal lifetime time limit on receipt of TANF "assistance."

- States and large cities that receive federal Emergency Shelter Grant funds may use up to 30 percent of the funds for homelessness prevention, including payment of rent and mortgage arrears. A recent HUD study found that only 17 percent of grantees used ESG funds for homelessness prevention.

- The Emergency Food and Shelter National Board Program distributes funds annually to more than 2,500 cities and counties as well as states. Grantees are determined by local boards representing the local United Way and Red Cross chapters and the major faith-based charities and chaired by a local government representative. Funds can be used for one month of rent or mortgage payments.

Liberalizing the Food Stamp Vehicle Resource Limits

Proposal

To make a greater number of recently unemployed families eligible for food stamps by easing the restrictions on the value of a car a family may own and still qualify for food stamp benefits.

Rationale

No matter how low a family's income may be, it ordinarily cannot receive food stamps if it has assets in excess of $2,000. If the family has a vehicle whose market value exceeds the federal food stamp vehicle limit of $4,650, the amount by which the value exceeds $4,650 is counted toward the $2,000 asset limit.

In the almost 25 years since the food stamp vehicle limit was established, it has been increased only $150 (about three percent). The Consumer Price Index for cars has nearly tripled during this period. For the vehicle limit to have the same real value as the original limit, it would need to be set at about $13,000. Thus the vehicle limit has a far more restrictive effect on working poor families and on the recently unemployed than Congress originally intended.

This restrictive treatment of vehicles means that many low-income workers and recently unemployed workers cannot both receive food stamps and have a reliable car. Forcing someone who loses a job to sell his car to become eligible for food stamps makes no sense because not having a car can make it much harder to search for a job or commute to work. Yet food stamps could significantly help a family with an unemployed worker make ends meet while looking for a new job.

The food stamp vehicle rule has its harshest effects on poor families in rural areas. Census data show that poor rural households are somewhat more likely to own cars than poor urban households due to the longer distances and lack of public transportation in rural areas. In addition, central city residents who commute to work in low-skilled jobs in outlying suburbs find a car essential to obtaining and holding a job.

In designing programs under the TANF block grant, most states have recognized that strict vehicle limits are inconsistent with their welfare-to-work objectives. Almost all states apply more liberal vehicle resource rules to their TANF-funded cash assistance programs than they did under AFDC. In most states, the TANF vehicle policies also are far more generous than the food stamp vehicle policies. In addition, most states provide some non-cash, TANF-funded services with no vehicle limits at all.

The fact that many states' TANF vehicle rules are less restrictive than the food stamp vehicle rules puts families leaving cash assistance rolls (or being diverted from cash welfare programs) at a disadvantage compared to families receiving monthly cash assistance checks. The former are subjected to the restrictive food stamp vehicle limits. The latter are "categorically eligible" for food stamps and hence exempt from the food stamp limits; they need only meet the less-restrictive TANF limits.

Design Options

Recent federal legislation and regulations give states a great deal of flexibility to craft new, more liberal food stamp vehicle rules that are more consistent with the vehicle rules in other programs, such as TANF and Medicaid. States have two methods they may use to liberalize food stamp vehicle policy: they may align food stamp policy to a TANF- or MOE-funded *assistance* program or use the asset rules from a TANF- or MOE-funded *benefit* program for households authorized to receive that benefit.

Under federal TANF regulations, "assistance" includes cash, payment vouchers, and other benefits designed to meet a family's ongoing basic needs (such as food, clothing, and shelter). It also includes services with a clear cash value such as child care and transportation subsidies (except when provided to a working family). Other uses of TANF fall under the broader category of "benefits" or "services."

- **Aligning food stamp policy to assistance programs funded by TANF or MOE funds.** States may use in the food stamp program the method for valuing vehicles that they have established under a TANF- or MOE-funded cash or non-cash assistance program so long as it is not more restrictive than federal food stamp rules. For example, Ohio excludes the value of all vehicles in its TANF cash assistance program. Wisconsin does the same in its child care assistance program. These states have now imported this rule into the food stamp program.

  While federal food stamp rules permit households to own multiple vehicles (albeit ones with a very low value), households with multiple vehicles are generally not eligible for TANF cash assistance in many states. These states may not simply import TANF cash assistance rules into the food stamp program because it could make households with multiple vehicles worse off. They may, however, merge their TANF- or MOE-funded assistance program rules with food stamp rules in a way that prevents this result. Pennsylvania, for example, imports its TANF cash assistance program policy, which exempts one vehicle per family, and then applies federal food stamp rules for all additional vehicles.

- **Using the asset rules in a TANF- or MOE-funded benefit program.** Alternatively, states may employ in the food stamp program the vehicle asset rule from a TANF- or MOE-funded *benefit* or *service* program for households that are authorized to receive that benefit or service.

  Under the food stamp program, households that receive a TANF- or MOE-funded benefit are "categorically eligible" for food stamps and do not have to meet the food stamp asset test in order to receive benefits. (The amount of the food stamp benefit is still determined based on their income.) In some states, the state authorizes all food stamp applicant households to receive a benefit funded by TANF or MOE. As a result, all such households are categorically eligible for food stamps, and thus not subject to the restrictive food stamp vehicle test. In other states, only a small number of households are eligible for the benefit, so the state must apply an alternative vehicle policy for households that do not receive the benefit. They may use federal food stamp rules or import the rule from a TANF- or MOE-funded assistance program, as described in the first option.

As of January 2002, thirty-nine states had used their new flexibility to implement a new food stamp vehicle policy or had firm plans to implement a new policy in the near future. Of these states, 18 are excluding the value of all vehicles in determining food stamp eligibility. Eleven states are excluding at least one vehicle per household (or per adult) before applying federal food stamp vehicle rules. Another seven states have opted to increase the $4,650 limit for the first vehicle to anywhere between $5,000 and $15,000. Three states exclude certain vehicles based on the characteristics of the household or the specific use of the vehicle.

Despite this impressive progress, 12 states had not yet planned definitive action as of January 2002; families in these states were still subject to the restrictive food stamp vehicle asset rules. These states include California, Georgia, Idaho, Iowa, Minnesota, Mississippi, Rhode Island, Virginia, and Washington. In addition, some states that have liberalized their food stamp vehicle policy could go further and ensure that *no* low-income working or recently unemployed families are denied food stamps because of the value of a car they need to find or keep a job.

Funding

The federal government fully funds food stamp benefits.

Simplifying the Food Stamp Application Process

Proposal

To simplify the food stamp application process, thereby easing administrative barriers to participation.

Rationale

As a federally-funded, open-ended entitlement with a national benefit structure, the food stamp program plays an important role in assisting unemployed and low-wage workers during a recession. It also brings additional federal dollars into a state during a recession, which can help stimulate the state's economy and benefit the retail food and agriculture sectors.

However, the substantial decline in food stamp participation rates in recent years raises serious concerns about whether the program will respond as effectively in the current recession as in past downturns. The number of food stamp participants fell from 27 million in 1994 to about 17 million in 2001. USDA has estimated that less than half of this decline can be explained by the strong economy of the late 1990s and the associated lower need for food stamps.

The wide variation in food stamp participation rates from state to state suggests that state administrative practices are one factor affecting food stamp participation. For 1998 (the most recent year for which estimates are available), USDA estimates that 82 percent of eligible individuals in Maine participated in the food stamp program, compared to only 45 percent of eligible individuals in New Hampshire.

States can improve their food stamp participation rates by making their application procedures less burdensome. While the Food Stamp Act requires states to "provide timely, accurate, and fair service to applicants for, and participants in, the food stamp program," states have broad flexibility over how to design food stamp application forms and structure application procedures. Some states have developed application forms that are dozens of pages long. Not surprisingly, many eligible households find these intimidating. Long application forms may particularly discourage persons with limited literacy, those who have never applied for assistance before, and those who have limited time because of work or child care schedules. Longer forms also may require the state to devote more staff time to helping households complete their applications.

In some states, changes in TANF policies also may be interfering with food stamp application procedures. Since 1996, many states have actively sought to divert families from applying for cash assistance. When they succeed, the families often leave the welfare office without applying for food stamps (or Medicaid). Similarly, when families learn about some of the requirements accompanying TANF, they may leave the welfare office without applying for any benefits.

Another factor may be the verification process that takes place after a household has applied for food stamps. Many states require more extensive verification than federal rules require because of concerns about quality control errors. For example, many states routinely contact employers or schools to verify income or other information, although documentary evidence that the applicant has provided is sufficient. A worker who has just started a new job may not want his employer to know that he is seeking or receiving food assistance for his family. In addition, some states commonly conduct pre-certification "fraud" investigations of applicants even when there is no specific evidence of dishonest behavior. These practices can create a climate that reinforces the stigma many hard-working low-income families feel toward receiving food stamps.

Design Options

By improving application procedures in ways that reduce administrative barriers, states and localities can help newly-unemployed individuals secure needed food assistance during the economic downturn.

- **Simplify the food stamp application form.** To replace long, complicated applications, some states have designed extremely short "introductory" application forms for food stamps, Medicaid, and other benefits. Tennessee's form, for example, is just one page, front and back. Completing one of these short forms begins the application process. These states cover other eligibility factors in the interview.

- **Simplify the food stamp application process.** To make the application process more convenient for applicants, local welfare offices can be open during evening and weekend hours. The state also can schedule interviews based on the applicant's schedule rather than assigning interview times. In addition, states can require families to reapply (and appear for a face-to-face interview) as infrequently as once a year.

  One state that has sought to improve the application process is Maine. The state does not require an appointment for an initial food stamp interview, and local offices are committed to serving each client within ten to twenty minutes of his arrival at the office.

- **Ensure that state welfare reform policies do not affect food stamp applications.** Some states, such as South Dakota, take food stamp and Medicaid applications from families when they first enter the welfare office, before the family sees TANF eligibility workers or has TANF requirements explained to them. In this way, even if the family decides not to pursue an application for cash assistance, it has applied for other benefits and is more likely to understand that it can receive food stamps and Medicaid without receiving TANF.

- **Make verification practices less intrusive.** There are a number of ways states can reduce the burden on clients of providing verification. One is making clear to applicants what the state's verification requirements are. Another is specifying what constitutes acceptable documentation and not demanding forms of documentation that are not required by federal rules. (For example, states should not require a birth certificate when federal rules also allow a driver's license to be used to document identity.) States also can make it easier for applicants to supply documentation by providing photocopying machines at local offices.

  In addition, when recertifying a family's eligibility for food stamps, states can opt not to require verification of items that have not changed. Some states require a letter from the landlord at each review even when the client says the rent has not changed.

In addition, as discussed elsewhere in this report, states have several new options regarding how they require households, once enrolled, to report changes in their circumstances. These new options can significantly reduce the administrative burden on both households and state agencies.

Funding

The federal government fully funds food stamp benefits.

Using New Food Stamp Reporting Options

Proposal

To use the new semi-annual or quarterly reporting option in the food stamp program to ease administrative burdens on families, as well as on state agencies.

Rationale

Under recent USDA regulations and new administrative waivers, states have several new options concerning how they require food stamp households to report changes in their circumstances. These new options can make participating in the program easier for many families — especially those whose incomes fluctuate, as many low-income families' incomes do during economic downturns.

The food stamp program has traditionally required exceedingly up-to-date information from households receiving food stamps to determine eligibility and benefit levels. Households have been required either to inform the food stamp office of even minor changes in income or other circumstances within ten days or to mail in a report of their circumstances monthly even if there were no changes. In addition, many states have required families to reapply at the food stamp office every three months.

It can take considerable time and effort for families to contact or visit the food stamp office and to provide the required documentation of fluctuating income. The burden can be especially onerous for low-income working families, whose income may change from week to week. During a recession, families eligible for food stamps may have more trouble piecing together a full-time work schedule and may experience even greater variation in their employment status and wages as employers contract and expand the amount of available work.

Policymakers, analysts, and program administrators have become increasingly concerned that these complicated and burdensome reporting rules discourage needy households from receiving food stamps that could help feed their families. The latest available research shows that the food stamp program serves fewer than half of all eligible low-income working families. Between 1994 and 1999, according to the USDA, food stamp participation among these families fell from 57 percent to 43 percent.

States too stand to benefit from simpler reporting rules, since states must devote significant staff resources to process the information that food stamp households submit. In a recessionary economy, where a state's food stamp caseload may be rising even as its budget is subject to cutbacks or freezes, reducing the frequency with which information is required from food stamp households can help ease workload pressures on state eligibility staff.

The new reporting options also can help states achieve and maintain low error rates. The food stamp quality control system measures how accurately states determine eligibility and benefit amounts; states with error rates above the national average are subject to federal fiscal penalties. Error rates are generally higher among working than non-working families because the earnings of low-income working families tend to fluctuate. In fact, it was to address this problem that many states instituted some of the burdensome requirements described above. Under the new reporting options, states can increase participation *without* jeopardizing error rates because the quality control system does not count changes in household circumstances as causing errors if the change was not required to be reported.

Design Options

States' new options include allowing households to report earnings twice a year or quarterly with virtually no obligation to report changes that occur between reports. States may adopt different procedures for different households but may not impose more than one set of reporting requirements on any one household.

- **Semi-annual reporting.** Under this option, a working household has no reporting obligations for six months at a time unless its income rises above 130 percent of the poverty line (the program's gross income limit). Benefits are essentially frozen for the six-month period. After six months the state can recertify the household or ask it to complete a simple report form, followed by another six-month period with no reporting required as long as the household's income does not exceed the gross income limit. Households experiencing a loss of income can report it to the state and receive higher benefits.

As of January 2002, 19 states had implemented or had plans to implement semi-annual reporting for working households. (Currently, households without earnings cannot be assigned to semi-annual reporting, though legislation that would permit this is now before Congress.) These states are Colorado, the District of Columbia, Delaware, Georgia, Kentucky, Louisiana, Maryland, Michigan, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New York, Oklahoma, Oregon, Tennessee, West Virginia, and Wyoming.

- **Quarterly reporting.** Under this option, households are required to submit a report every three months but are not required to report any changes between reports. As with semi-annual reporting, households experiencing a loss in income may report it to the state and receive higher benefits. Under guidance USDA issued in January 2001, states may receive waivers to apply quarterly reporting to their entire caseloads except for migrant and seasonal farm workers, homeless households, and certain elderly and disabled households.

  According to the USDA, the following states use quarterly reporting for some types of households: Alabama, Arkansas, Illinois, Louisiana, Massachusetts, Montana, New Mexico, and South Carolina.

- **Other options.** Alternatively, states may obtain waivers to raise the threshold for which changes in earned income must be reported. Under these waivers, states may require households to report only a change of jobs, a change in hourly rate of pay, and one of the following: a change in earnings of $100 or more per month, a change in work hours of five hours per week or more, or a change from full-time to part-time work or vice versa. By adopting a sufficiently stringent definition of "full-time employment," a state can make virtually all changes in hours non-reportable. A number of states that earlier adopted one of these options have now moved to one of the newer options.

- **Coordinating with Medicaid.** Despite the welfare law's "delinking" of cash assistance from food stamps and Medicaid, almost every state continues to administer the major low-income assistance programs together, and many families participate in more than one program. These families often face duplicative and uncoordinated application, reporting, and renewal requirements.

  The new food stamp reporting options give states the flexibility to improve coordination between food stamps and Medicaid, which should increase enrollment and retention of low-income families in both programs. For example, both Washington State and Illinois now automatically extend Medicaid eligibility based on information contained in a food stamp quarterly report or application for recertification. This makes the Medicaid renewal automatic, with no additional paperwork required from the family.

Funding

The federal government fully funds food stamp benefits. The federal government also shares with states the cost of administering the food stamp program.

Easing the Food Stamp Time Limit for Unemployed Adults

Proposal

To ease the application of the food stamp program's three-month time limit on participation for unemployed childless adults so recently unemployed individuals, including some people in families with children, can receive food stamps during a recession.

Rationale

A provision of the 1996 welfare law limits the receipt of food stamps for most people aged 18 through 49 who are not disabled or living with minor children to three months while unemployed out of each three-year period. Only those working or participating in a work or training program at least half-time (or participating in a food stamp workfare program that provides food stamp benefits in exchange for work activities) can continue to receive benefits beyond the three-month period. Past work history is not taken into account, so the provision limits food stamp receipt for people who have been working but have lost their jobs and cannot find employment within a few months.

The population subject to the time limit are highly disadvantaged. Many have no income (other than the average of $130 a month they could receive in food stamps) and qualify for no other benefits because they are not raising minor children or disabled. USDA data show that 95 percent of the men and women who fall into this category have incomes below 75 percent of the poverty line; their average incomes are 24 percent of the poverty line. Over 40 percent do not have a high school diploma. Many live in rural areas with limited access to transportation or in central cities, while low-skilled jobs are increasingly concentrated in the suburbs. Because of their limited education and skills, they are likely to have a tenuous attachment to the labor force and to be among the first to lose their jobs during a recession.

Most areas of the country have very limited work, training, or workfare programs for food stamp recipients. During a recession, state budget constraints are likely to reduce the availability of such programs despite the additional demand for them. As a result, individuals subject to the time-limit will lose food stamps not because they refuse to work but because no work opportunity in the private or public sector is available to them.

Though the three-month time limit applies only to childless adults, it can adversely affect children as well. Some states have applied the time limit inappropriately to one parent in two-parent families or to other adults (such as older siblings, other relatives, or unrelated individuals) who live with children. In addition, many unemployed childless adults who are subject to the time limit are noncustodial parents. By helping noncustodial parents make ends meet during a period of unemployment, food stamps can make it more likely that they will be able to resume child support payments when they obtain jobs.

Design Options

States first should ensure that they are not applying the three-month time limit to individuals who live in a household with a child under age 18. In final regulations published in January 2000, USDA clarified that the three-month time limit does not apply to these individuals. When such individuals are disqualified from the program due to time limits, the household's food stamp benefit is lower and the household has less resources to purchase food for the entire household, including the child.

In addition, states have two options for extending food stamps to childless unemployed adults who are subject to the three-month time limit: waivers and extensions. States that were reluctant to use these tools in the strong economy of the late 1990s may be willing to reconsider them during a recession.

- **Area waivers.** Upon request by states, USDA may grant waivers from the three-month cutoff for areas with "insufficient jobs" — that is, areas with unemployment rates that exceed the national average by at least one-fifth over a 24-month period. Many such areas appear on the U.S. Department of Labor's annual list of

Labor Surplus Areas, though a large number of areas that meet this criterion are not on the list.

In a time of increasing unemployment, states may be able to use other more recent data — such as declining employment-to-population ratios — to argue that an area does not have sufficient jobs. For example, USDA recently granted New Hampshire a waiver for a county in which unemployment spiked after the largest local employer filed for bankruptcy, even though the county had not qualified for a waiver on the basis of somewhat older data that is used in the routine waiver approval process.

Area waivers are the simplest, lowest-cost, and most effective way to assist large numbers of unemployed individuals subject to the cutoff. In federal fiscal year 2001, 38 states received waivers for at least part of the state. However, a number of states either did not apply for any waivers or did not waive all the areas in the state that were eligible for waivers. These states include Alabama, California, Colorado, Connecticut, Georgia, Idaho, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, South Carolina, Tennessee, Utah, Vermont, West Virginia, Wisconsin, and Wyoming. As a result, many individuals in these states lost food stamp benefits unnecessarily.

- **Individual exemptions.** States also have the authority to exempt a substantial number of individuals from the three-month time limit. States have full discretion in deciding whom to cover with these exemptions. They may, for example, provide additional months of food stamp eligibility for current recipients (as Missouri and Tennessee have done) or exempt all individuals living in areas not covered by waivers (as Florida, Illinois, and Oregon have done).

  While this exemption authority is commonly known as the "15 percent exemption" authority, the number of exemptions actually available to a state generally is far above 15 percent of the current caseload subject to the time limit. One reason is that unused exemptions may be carried forward from year to year and most states have not been fully utilizing the exemptions available to them.

  As a result, almost every state has a large number of exemptions that could be used during this recession. Virtually all states now have enough exemptions to extend the three months of eligibility that time-limited persons have under federal law to a total of at least six months. The only states that have *not* accumulated very large reserves of available exemptions are Illinois, Kansas, Louisiana, and Oregon.

Funding

The federal government fully funds food stamp benefits.

Extending Publicly Funded Health Coverage for Low-income Families

Proposal

To broaden Medicaid or SCHIP eligibility incrementally to assist recently unemployed and other low-income families and individuals.

Rationale

Two recent trends are likely to cause an increase in the number of individuals without health insurance over the coming year. One trend is the economic slowdown. Many workers will lose private health insurance when they become unemployed during the recession. Although COBRA coverage is available to most newly unemployed workers, its high cost renders it unaffordable for most. In addition, some employers are reducing their employees' work hours, leaving them ineligible for employer-sponsored coverage or unable to afford the increased share of insurance they must pay.

The second trend is rising health care costs. Many firms cannot afford to offer health coverage. Others are reducing coverage (such as by not covering dependents) or are increasing the amount that workers must pay for coverage, which may make insurance unaffordable for low-income workers.

The combined result of these two trends will be a loss of private insurance coverage, particularly among low-income workers.

The uninsured children of low-income unemployed workers generally can receive coverage through public insurance programs, including Medicaid and the State Children's Health Insurance Program (SCHIP), since almost all children with incomes below 200 percent of the poverty line are eligible. Publicly-funded coverage is much more limited for adults, however. In a typical state, a parent earning about two-thirds of the poverty line is ineligible for Medicaid; a childless adult who is not disabled or elderly would not be eligible for Medicaid at any income.

Furthermore, parents generally do not qualify for Medicaid while collecting Unemployment Insurance because UI benefits are typically higher than Medicaid eligibility levels. After exhausting their UI benefits, unemployed people often remain ineligible for Medicaid because the value of their assets — such as vehicles — is too high, even though they have little or no income.

Design Options

Because of fiscal constraints, few states are likely to undertake major expansions in coverage for low-income adults in the coming year. However, incremental expansions are feasible, particularly if they are well-targeted and primarily federally-funded. States have three main options:

- **Expand eligibility for low-income parents (and childless adults) above current income limits.** This is especially important for states in which the Medicaid income limit for parents is below the poverty line. Expanding eligibility above current income limits would help recently unemployed workers with low incomes and those with low incomes due to reduced work hours. Since their children are generally eligible for Medicaid or SCHIP already, expanding parents' eligibility also would ensure that the whole family has coverage.

  One way states can expand parent coverage is by using the "Section 1931" option, which allows states to raise Medicaid income eligibility levels by disregarding much or all of the earnings of low-income working parents. To date, eight states have chosen this option.

  Another way is by obtaining a federal waiver, known as a "Section 1115" waiver, to use Medicaid or SCHIP funds for the expansion. In August 2001 the Bush Administration, under its Health Insurance Flexibility and Accountability (HIFA) initiative, announced a new form of Section 1115 waiver that can be used to expand coverage for parents with incomes up to 200 percent of the poverty line.

To help pay for coverage expansions, the HIFA waiver allows states to reduce benefits or increase cost-sharing for current "optional" Medicaid beneficiaries, or persons that federal law does not require states to cover. States, however, should avoid these actions, which would reduce participation by individuals who are now eligible and would especially harm those who make the most use of health services, such as those with chronic health conditions. Moreover, it makes little sense to finance expansions for higher-income individuals by reducing benefits to lower-income individuals. (Individuals who are currently eligible for Medicaid have lower incomes than those to whom coverage expansions would apply.)

States that already have expanded coverage for parents could go further and request waivers to cover low-income childless adults. HIFA waivers may be used to cover childless adults, for example; Arizona's HIFA waiver covers both low-income parents and childless workers. States that have general assistance or other indigent care programs funded entirely with state dollars may be able to gain federal matching funds for covering childless adults.

- **Expand coverage only for recently unemployed workers.** Some states may want to focus more narrowly on providing health insurance to recently unemployed workers. States can apply for waivers to offer Medicaid or SCHIP benefits to recently unemployed workers and their families with low incomes, such as those with incomes below 150 or 200 percent of poverty. This would be less expensive than also providing coverage to working families with equivalent incomes or families that have been unemployed for a long time. To further reduce costs, these benefits could be provided for a temporary period such as 12 months.

  An alternative approach would be to disregard unemployment insurance benefits in computing income in Medicaid or SCHIP. Nevada recently decided to disregard UI benefits in computing SCHIP eligibility for children. Under Section 1931, states also could disregard unemployment benefits for parents in determining Medicaid eligibility. The disregard approach can be implemented by submitting a state plan amendment; a waiver is not required.

  A key concern about expanding coverage only for recently unemployed workers is that it favors middle-income families that have recently lost their jobs over families that were poor before the economic downturn or that have reduced income due to reduced work hours.

- **Eliminate or relax Medicaid asset tests for families.** Although most states have eliminated the asset test in determining children's eligibility for Medicaid, 35 states still impose an asset test in determining parents' eligibility. Typically, the asset limit for families is between $1,000 and $3,500 and disregards some portion of the value of the first car.

  Asset tests are particularly problematic for recently unemployed families: assets they accumulated (or a car they may have purchased) while working making them ineligible for Medicaid even though they have little or no current income. Sometimes these assets — such as vehicles — are needed to find another job and cannot be converted to cash without incurring substantial losses.

  Eliminating or easing asset limits also may make Medicaid easier for states to administer. In many cases, state or local eligibility offices have lost positions or are unable to hire because of budget problems and may find administrative simplifications desirable.

  States may increase Medicaid asset limits simply by modifying their state plans. Federal approval is not required.

Funding

Under either Section 1115 waivers or Section 1931 expansions, states that want to expand eligibility for parents can obtain additional federal matching payments without identifying offsetting savings. Moreover, states that have unspent SCHIP funds left over after covering low-income children may use them for expansions. A majority of states currently have unspent SCHIP funds that could fund expansions of coverage for adults for one or more years.

Using SCHIP funds reduces the amount of state funds that must be contributed, since SCHIP has a higher federal matching rate than Medicaid; a state's responsibility for the cost of an SCHIP-funded expansion would not exceed 35 percent and could be as little as 14 percent. Waivers recently approved for several states, including Arizona and California, rely on unspent SCHIP funds. However, each state's level of SCHIP funding is limited and must also support the costs of insuring children. Thus, states that currently have unspent SCHIP funds may need them to cover the future costs of insuring children.

Given states' current fiscal crises, the biggest challenge is finding the state matching share of the cost of coverage expansions. Possibilities include: (1) using funds from state tobacco settlements, which are still available or in trust funds in many states, (2) redirecting state or local funds that are now used for other health purposes (such as indigent care programs) toward the expansion when federal matching funds can be found for these other purposes, (3) using Medicaid savings that can be secured from other programmatic changes, including cost containment for prescription drugs or long-term care, or (4) increasing health-related taxes, such as tobacco taxes or provider taxes.

See Appendix D for state-by-state data on SCHIP funding. See Appendix G for state-by-state data on tobacco settlement funds.

Helping Eligible Families Obtain Publicly Funded Health Coverage

Proposal

To encourage families that have lost jobs or have reduced income to obtain publicly funded health insurance by targeting outreach efforts and by simplifying application procedures.

Rationale

Many workers who have become unemployed during the current economic downturn are finding themselves without the health coverage they formerly received from their jobs. Some workers who have managed to retain employment may have had their work hours curtailed, possibly affecting their ability to participate in an employer health plan. Others may have moved into low-wage jobs that do not provide affordable health benefits or any health benefits at all.

As a result, more children and parents are sure to become eligible for Medicaid or the State Children's Health Insurance Program (SCHIP). Prompt enrollment will provide a measure of security for individuals with current medical conditions and will protect families from financial exposure should a medical need arise.

Although states may be tempted to scale back or even rescind outreach activities for budgetary reasons, these activities are crucial during hard economic times: families that have recently become eligible may not be aware of the programs or may not think they are eligible. A recent Urban Institute study found that more than half of low-income parents — 53 percent — are either not aware of any children's health coverage program in their state or do not know that welfare participation is not a precondition of enrollment.

Families are likely to be unaware of available coverage if they have had a longstanding stable work history or employer-based coverage or if they have not interacted with public assistance programs in the past. Outreach messages can be crafted especially for this "new audience" to alert them to the availability of Medicaid and SCHIP coverage for their children and to the possibility of obtaining Medicaid coverage for parents.

Although several years have passed since the welfare law severed the historical link between eligibility for Medicaid and eligibility for cash assistance, many families do not understand the significance of this change. They may mistakenly believe that the rules related to the receipt of cash assistance — such as time limits — also apply to Medicaid and, out of fear that they will "use up" their allotted time, may forego applying for health coverage.

Outreach messages should reinforce that families do not have to be receiving cash assistance to get health coverage. Families that are compelled to seek cash assistance because they have lost their jobs also need to know they can and should apply for health coverage even if their application for cash assistance is delayed or diverted until they comply with various TANF requirements, such as a job search.

States also can help smooth the path to health coverage for families hurt by the recession by simplifying enrollment and renewal procedures. Possible steps include trimming the length of applications, eliminating the requirement for a face-to-face interview, and paring back unnecessary verification requirements.

A simple application process not only makes health coverage programs easier for families to navigate but also can be a powerful outreach tool. Community-based organizations are more likely to participate in outreach and enrollment activities if they feel capable of helping families complete forms quickly and accurately.

Design Options

To ensure that families hurt by the recession know about and can obtain health coverage, states should move forward on two parallel tracks. They can (1) target outreach efforts to these families, and (2) simplify the enrollment and renewal process to minimize barriers to coverage.

Targeted Outreach Efforts

States can supply unemployment offices with health coverage applications and with posters, flyers, videos, and other materials that publicize available health coverage programs. All materials should tell families how they can get help applying, including by calling a toll-free number or by contacting a community group that has been trained to provide application assistance. The agencies that administer Medicaid and SCHIP can go further by outstationing eligibility workers or application assistors in unemployment offices.

Similar measures can be implemented at other locations where families may apply for benefits they now need to help them weather the economic downturn, such as food stamps, WIC, school nutrition programs, energy assistance, and other benefits. States can encourage specific industries harmed by the recession (such as the travel industry) to provide eligibility information to their employees. They also can enlist businesses in conducting outreach to their customers — particularly businesses families patronize when they are trying to save money, such as discount stores and inexpensive family-oriented restaurants.

Beyond these basics, states can undertake more-intensive outreach activities. For example:

- **Dispatch "rapid response teams" to provide information and assistance to employees affected by the recession.** In November 2001, the Georgia Department of Labor hosted a Career and Benefits Expo for workers laid off in the travel and hospitality industries. Staff from the Georgia Department of Community Health were on hand to assist unemployed workers in completing applications for children's health coverage. The event was so successful that the department hosted a second expo a few weeks later.

- **Produce outreach materials emphasizing that families do not have to be receiving cash assistance to qualify for health coverage.** Pennsylvania produced and ran such ads in 1999. The ads prompted a jump in calls to the state's helpline from families that realized they were eligible for Medicaid. In New York City, the Mayor's Office for Health Insurance Access teamed up with the Commonwealth Fund to produce radio and subway ads with the message, "Leaving welfare behind doesn't have to mean leaving health coverage behind too." The ads provided a toll-free number to call for information and help applying for health coverage programs.

- **Reach out to immigrant families, which are more at risk of becoming unemployed.** Immigrants are at particular risk of becoming unemployed during a recession because many of them work in industries that are sensitive to a poor economy, such as the hospitality industry. To reach these families, promotional materials, applications, and application assistance can be made available in the languages spoken in specific immigrant communities.

  Outreach materials should help allay any fears immigrant families may have about applying for programs for which they are eligible. For example, parents need to understand that when applying for Medicaid coverage for a child, a parent is not required to provide his or her Social Security number. In addition, families need to be assured that the Immigration and Naturalization Service has stated that applying for and using children's health insurance programs will not have negative immigration consequences (such as increasing their likelihood of being considered a "public charge"), except in very limited situations.

- **Engage community-based organizations in helping unemployed families apply for coverage.** A number of states, including Massachusetts and Ohio, provide modest grants to community groups to help families complete applications and renewal forms. Other states support such activities with "application assistance fees" to organizations that help families file successful applications. In addition to supporting the efforts of groups and institutions that have earned the trust of families in the community, states should consider engaging organizations that help families deal with unemployment or family budget problems, such as labor unions or consumer credit counseling groups, in outreach activities.

Enrollment and Renewal Simplifications

States have the authority to remove most barriers to health coverage enrollment and renewal. For example, states can simplify eligibility rules, such as by eliminating asset tests. They also can create family-based applications that allow families to apply for coverage for parents and children by submitting a simple, joint form. Instead of requiring a face-to-face interview at a welfare office, states can allow families to submit applications by mail. Connecticut, Missouri, New Jersey, and Ohio have adopted such procedures.

States can take other simplification measures, such as:

- **Ensure that application procedures for Medicaid and SCHIP are simple and aligned.** In addition to streamlining the process for obtaining health coverage, state procedures should allow for smooth transfers between a state's separate SCHIP program and Medicaid. Federal law requires states with separate SCHIP programs to screen SCHIP applicants to determine whether they are eligible for Medicaid, and if so, to enroll them in Medicaid.

  Once a child is enrolled in a separate SCHIP program, if his or her family experiences a drop in income, the child should be able to transfer from SCHIP into Medicaid without having to complete a new application. Shifting to Medicaid generally relieves the family of any cost-sharing requirements that may be imposed by the SCHIP program and provides the family the other protections Medicaid offers. Families should be apprised that such transfers are possible when the need arises, even if the child is in the midst of the SCHIP enrollment period.

  In Indiana, families need only present proof of income, not fill out a new application, to transfer their children from SCHIP to Medicaid. This transfer should not disrupt children's medical care since children covered under the state's SCHIP program and Medicaid have access to the same providers.

- **Eliminate waiting periods in SCHIP programs or adopt exceptions to the waiting period.** Families that have recently lost their jobs — and, as a result, their health insurance — need to obtain health coverage for their children without delay, especially if they have a child with an ongoing medical need. Yet many states, in an effort to prevent "crowd-out" (the substitution of public coverage for private coverage), have imposed waiting periods during which a child must be uninsured before he or she can apply for coverage under SCHIP.

  Such waiting periods are not required by federal law and can be abolished. Alternatively, states can adopt generous exceptions to the waiting period for families that have lost employment or for other reasons.

  Several states, including Kansas and Mississippi, have recently eliminated their waiting periods. Other states have shortened waiting periods or have adopted affordability exemptions. Iowa, for example, exempts children from the waiting period if the family's share of the cost of its employer-sponsored health insurance exceeds five percent of the family's gross income.

- **Adopt presumptive eligibility.** The presumptive eligibility option allows "qualified entities" such as health care providers, schools, WIC, child care agencies, and others to enroll a child immediately in Medicaid or SCHIP, for a temporary period, if the child appears to qualify, pending a formal eligibility determination. It can be especially helpful to families harmed by the recession because it can get children into care without delay, reducing the danger that they may experience a gap in coverage if their families have lost health coverage through their jobs. (Even in states that do not impose SCHIP waiting periods, it may take several weeks to process an application fully.)

Nine states, including Connecticut, Mississippi, Nebraska, New Jersey, and New Mexico, have adopted the presumptive eligibility option in children's Medicaid or in children's Medicaid and the state's SCHIP program.

- **Relax cost-sharing.** Most states with separate SCHIP programs have imposed premiums, point-of-service co-payments, or both. Research shows that these cost-sharing requirements decrease health care enrollment and utilization. (For example, requiring families to pay one percent of their income for health premiums can cause a decline in enrollment by some 12 to15 percent.) To relieve the pressure on families suffering the effects of the downturn, states can reduce the amount of cost-sharing or relax the penalties on families who are unable to meet their cost-sharing obligations.

- **Implement easy renewal procedures.** During an economic downturn it is particularly important to help families retain health coverage for as long as they remain eligible, since they are less likely to be leaving the program because they have found private coverage through an employer. Families should be able to complete the renewal process easily, by mail, and without having to produce information that has not changed since initial application.

  States have implemented an array of streamlined renewal procedures, including the use of renewal forms pre-printed with the family's household and income information that require families to indicate only whether any changes have occurred. Under South Carolina's "passive renewal" system in its children's Medicaid program, for example, families are asked to report any changes in income or household members; if the form is not returned, it is understood that there were no changes to report and eligibility continues. Florida and Georgia have similar procedures in their SCHIP programs.

  Other states, such as Washington State and Illinois, use information from other public programs (such as food stamps) to continue a child's health coverage without requiring additional action from the family.

Funding

Medicaid and SCHIP administrative funds can be used to conduct outreach and enrollment activities. Medicaid administrative matching funds are available to states at a federal matching rate of 50 percent; matching rates for SCHIP vary from 65 to 85 percent, depending on the state.

In addition, states can conduct outreach activities to ensure that families do not lose health coverage as a result of welfare changes using dollars from the TANF delinking fund (also called the "$500 million fund"). Established as part of the 1996 welfare law, the fund makes resources available to the states at a greatly enhanced matching rate — up to 90 percent for many activities.

See Appendix D for state-by-state data on the $500 million fund.

Making More Workers Eligible for Unemployment Insurance

Proposal

To make workers who have recently joined the work force and part-time workers eligible for unemployment insurance benefits.

Rationale

The unemployment insurance (UI) system is designed to help workers who have lost their jobs involuntarily and are looking for work. However, not all unemployed workers in need of assistance are eligible for UI benefits. This is a particular problem in a recession, when unemployment rises.

While UI eligibility criteria vary by state, they basically amount to three tests: Did the worker have enough wages in the past year to qualify? Was the worker involuntarily separated from employment? Is the worker available for work? In many states, these tests have been implemented in a fashion that results in the denial of benefits both to certain workers who have recently joined the work force and to part-time workers.

Workers who have recently joined the workforce — particularly when they are low-wage workers — often are ineligible for UI benefits, even though in a recession they generally are less protected from layoffs than those with greater seniority. The reason is that in most states, earnings in the current calendar quarter (the quarter in which the layoff occurred) and the previous calendar quarter are *ignored* in determining whether a worker earned enough to qualify for UI benefits. Furthermore, a worker not only must have a sufficient total level of earnings to qualify, but must have earnings in a second quarter that are at least half of the level of the earnings in the highest-earning quarter.

To understand the effects of these rules, consider the case of someone who began work March 1 and was laid off in late December. He or she would have worked only one-third of the year's first quarter and all of the second quarter. The third quarter is not counted because it is the most recently completely quarter; the final quarter is not counted because the worker was laid off in that quarter. Thus the worker would not qualify for UI benefits — even though he or she worked for nearly ten months and had total earnings well above the qualifying level — because he or she does not have earnings in a second quarter that are at least half as high as the earnings in the high quarter.

Among those made ineligible for UI benefits by the failure to count their most recent wages are many single mothers who recently left the welfare rolls for employment. (Households headed by women make up a majority of welfare recipients.) In a difficult labor market, large numbers of these women might wind up back on welfare if they cannot receive unemployment benefits. Indeed, recent Bureau of Labor statistics show that the unemployment rate of women who maintain families has risen 57 percent in recent months, from 5.1 percent in December 2000 to 8.0 percent in December 2001. This means that 288,000 more women who maintain families are unemployed than at the end of 2000.

Like recent entrants to the work force, part-time workers are generally ineligible for UI benefits, even though they make up about one-sixth of all workers and a slightly smaller share of the unemployed. Urban Institute economist Wayne Vroman notes that part-time adult workers are about half as likely to receive UI benefits as full-time adult workers.

The reason is that 31 states define "available for work" as available for *full-time* work. Thus, an individual who has been working 20 to 30 hours per week and is available for work for a similar amount of time — such as a mother with a young child — is disqualified for UI benefits even though UI taxes were paid based on her earnings, she earned enough to meet the UI earnings requirement, she was involuntarily separated from employment, and she is seeking work comparable to the job she lost. Because her child care needs make her unavailable for full-time work, she is ineligible for UI benefits.

Making workers with brief but recent work histories and part-time workers eligible for UI benefits would benefit a substantial number of people. The Department of Labor estimates that over the course of a year, almost 800,000 additional workers would receive UI benefits if a worker's most recent wages were used to determine eligibility, and about 335,000 additional workers would receive benefits if part-time workers were eligible. Also, it is worth noting that in many instances, providing UI benefits to recent hires and part-time workers will reduce a state's welfare costs by enabling families to remain off TANF.

Design Options

States can make part-time workers eligible for UI benefits simply by eliminating the requirement that workers be available for full-time work. Workers would still need to meet all other UI eligibility criteria, such as having a sufficient amount of earnings.

Extending UI benefits to workers who have recently joined the work force is more complicated. To implement this change quickly and thereby help workers who lose their jobs in the current downturn, states could initiate a two-phase process:

- **Phase 1: Re-evaluate those found ineligible for UI using new eligibility rules.** In this phase, each worker's eligibility for benefits would be assessed initially using the regular UI procedures. If the worker is eligible, everything would proceed as normal. If the worker is ineligible because of insufficient wages in the time period counted by the state, he or she would then produce evidence of more recent earnings, which would be used in determining eligibility. (No information on more recent earnings would be required from employers.) Benefits for workers who are made eligible under the new provisions would be calculated according to existing formulas.

  In this phase, therefore, the new procedures would apply only to a small minority of new claims — those in which the worker was initially denied UI benefits. According to a variety of experts, this phase can be implemented within a 30-day period.

  Some increase in payment errors is inevitable due to problems such as incorrect self-reporting of income. Employers would not be charged for these errors, however, and the experience of other benefit programs suggests that errors (which are as likely to be underpayments as overpayments) can be kept to an acceptable level. The administration of UI is simple relative to other programs because eligibility depends only upon prior wages and the determination of whether someone is unemployed and available for work.

- **Phase 2: Incorporate the most recent wages of *all* workers into the UI benefit calculation formula.** Since state computer systems and other processes would have to be updated to include the most recent wages, states may require additional time to implement this phase. Counting the most recent wages of all workers not only would make some recent labor market entrants eligible for benefits, but also would make other workers eligible for higher benefit amounts than they were under the old formula.

Funding

These changes can be financed from state unemployment insurance trust funds. Most states have enough funds in their trust fund to finance an extension of UI benefits to workers who have recently joined the work force and part-time workers.

See Appendix F for state-by-state data on UI trust funds.

Providing Additional Weeks of Unemployment Insurance Benefits

Proposal

To adopt the mechanism for triggering additional weeks of unemployment insurance benefits that is most responsive to rising unemployment rates.

Rationale

Unemployment insurance (UI) benefits typically expire after 26 weeks. If a state's unemployment rate rises high enough, however, federal law provides for an additional 13 weeks of benefits. The federal government pays half the cost of these weeks of extended benefits from federal unemployment insurance trust funds; states pay the other half from their unemployment insurance accounts.

These additional weeks of UI benefits can provide critical support to families, especially during periods of high or rising unemployment, when an increasing number of jobless workers exhaust their regular unemployment insurance benefits because they are unable to secure new jobs within 26 weeks. Some 70 percent more people exhausted benefits in the fourth quarter of 2001 than in the fourth quarter of 2000, for example, and two million additional workers will likely exhaust their benefits in the first half of 2002. Extending these workers' unemployment insurance benefits aids them and their families while also helping stimulate the economy.

During the current economic downturn, however, only two states have provided extended UI benefits, even though total unemployment has increased by almost two percentage points during the past year (from 4.0 percent to 5.8 percent) and the economy clearly is in a recession. In most states, unemployment rates would have to rise substantially above current levels before extended benefits could be provided.

The source of the problem is the "triggers" that states use to activate the additional 13 weeks of UI benefits. Under federal law, there are several ways states can activate extended benefits. One way is identical in all of the states. Under this trigger, extended benefits are provided if over a 13-week period, a state's average insured unemployment rate (IUR) exceeds 5.0 percent and is at least 20 percent greater than the IUR for the same 13 weeks in each of the previous two years. The IUR is calculated by dividing the number of jobless workers currently collecting unemployment insurance by the total number of workers covered by the UI system (and thus potentially eligible for benefits if they become unemployed).

In addition to this trigger, each state may adopt one or both of two other triggers. One optional trigger provides extended benefits when the IUR for a 13-week period exceeds 6.0 percent. All but 12 states have adopted this trigger. At present, though, the 5 percent trigger described in the previous paragraph would take effect before the 6 percent optional trigger in each of these states. (This is because the low unemployment rates of 1999 and 2000 make it easy for states to meet the "20 percent increase" test that is part of the 5 percent trigger.)

The other optional trigger provides extended benefits when a state's total unemployment rate (TUR) over a 13-week period exceeds 6.5 percent and is at least 110 percent of the TUR for the same period in one of the past two years. Furthermore, if the TUR exceeds 8 percent and meets the same 110-percent test, 20 weeks of additional benefits can be offered rather than the standard 13.

The optional TUR trigger is the most sensitive of the three triggers to increases in unemployment — in other words, it provides extended benefits before either of the other triggers. Only eight states (Alaska, Connecticut, Kansas, New Hampshire, Oregon, Rhode Island, Vermont, and Washington) have chosen this option, but two of them (Oregon and Washington) are the only states in the nation that have qualified under the extended benefits program to provide additional benefits during the current recession. (In addition, Hawaii is providing additional weeks of benefits entirely at state expense, and Wisconsin plans to do so shortly.)

Design Options

States should immediately adopt the optional TUR trigger. States that have not already adopted the other optional trigger (the 6 percent IUR trigger) should consider doing so as well. This latter step is not urgent, however, because during the current recession the standard 5 percent IUR trigger will be activated before the 6 percent IUR trigger.

In the past, states have been reluctant to adopt the TUR trigger because its measure of unemployment includes unemployed workers not eligible for unemployment insurance benefits. This argument is flawed. Using this trigger in no way endorses the extension of unemployment insurance to cover all unemployed workers. In addition, the total unemployment rate is in some ways a better measure of need for extended benefits than the insured unemployment rate. The total unemployment rate captures the entire unemployed population, including those who have exhausted their regular UI benefits and unemployed workers who do not meet the UI system's strict eligibility requirements. Thus it more accurately reflects the difficulty that insured unemployed workers will have in finding work.

At this writing, it appears the federal government will create a temporary, emergency extended benefits program that provides up to 13 weeks of completely federally financed benefits for any workers who exhaust their regular 26 weeks of UI benefits. However, this should not dissuade states from adopting the optional triggers discussed above. Since unemployment traditionally continues to rise even after the official end of a recession, many workers will exhaust these 13 weeks of extended UI benefits without finding a job. Adopting the optional triggers would enable states to provide additional UI benefits to these workers.

Furthermore, because unemployment traditionally continues to rise even after the official end of a recession, many workers will exhaust the full 13 weeks of a federally financed extended UI benefits program without finding a job. Adopting the optional triggers would enable states to provide additional UI benefits to these workers.

Funding

As noted above, the federal government pays half the cost of the cost of any additional weeks of benefits for workers from federal unemployment insurance trust funds. The other half of the cost is borne by states from their unemployment insurance accounts.

In considering whether to fund an extension of UI benefits, states should keep in mind that if workers who are unable to find jobs after their regular benefits expire do not receive additional weeks of benefits, they may be forced to turn to other sources of assistance, such as TANF. States receive a fixed amount of TANF funds and therefore must bear 100 percent of the cost of providing additional assistance through TANF once they have used up their federal TANF grant. (Also, workers who exhaust their unemployment insurance benefits and turn to TANF risk reaching their lifetime TANF time limit.) While many states have some TANF funds available, in general states' unemployment insurance accounts are considerably larger than their federal TANF surpluses.

See Appendix F for state-by-state data on UI trust funds.

Increasing Unemployment Insurance Benefit Levels

Proposal

To increase unemployment insurance (UI) benefit levels temporarily.

Rationale

Temporarily increasing unemployment insurance benefits during recessions has two positive effects: it offers needed relief to unemployed workers and helps stimulate the economy. Currently, UI benefits are far lower than the wages they replace. In 2000, the "replacement rate" for unemployed workers receiving UI benefits — in other words, the percentage of lost wages that are replaced by UI benefits — was about 47 percent. The national average UI benefit is only $238 per week, or a little more than $1,000 per month.

UI benefits also are subject to the federal income tax. The tax code treats a family with $23,000 in earnings and $2,000 in unemployment benefits the same as a family with $25,000 in earnings. Since most UI recipients are in the 10 or 15 percent tax bracket, this policy effectively reduces the after-tax replacement rate of UI benefits by 10 or 15 percent for most workers.

In addition, because many state income tax systems follow federal definitions of "adjusted gross income" or "taxable income," the after-tax replacement rates for workers in these states generally are reduced by an even greater amount. Workers who face a 15 percent marginal federal income tax rate and a 5 percent marginal state income tax rate, for example, will experience a 20-percent decline in the after-tax replacement rate of their UI benefits. There is no evidence to suggest that UI benefits have increased in recent years to compensate for the taxation of benefits.

The insufficiency of UI benefits can be seen in the fact that in many jurisdictions, the fair market rent is more than two-thirds of the maximum monthly unemployment benefit. (The fair market rent is the Department of Housing and Urban Development's estimate of the rent and utility costs for a modest apartment in a given area.) A family that spends such a large portion of its benefit on rent will be hard-pressed to meet other basic needs, such as food and clothing. Federal guidelines state that to be considered affordable, rental housing should cost no more than 30 percent of a family's income.

Increasing UI benefits temporarily also would benefit the economy. Because UI benefits are so low, unemployed workers are likely to spend any additional benefits immediately on needed goods and services. Thus, increasing the weekly benefit amount would inject more money into the economy quickly and efficiently. According to a study commissioned by the Department of Labor, every additional dollar of UI benefits boosts the GDP by $2.15.

The fact that the increased spending would largely be for necessities gives states a particular interest in increasing UI benefits. Much of this spending would take place within the state and bolster the state economy.

Design Options

States should increase weekly unemployment benefits by 15 percent or $25 per week (whichever is greater) and maintain these increased benefit levels until overall unemployment shows a significant downward trend. A minimum dollar benefit increase is necessary to ensure that unemployed workers who had previously earned very low wages receive a meaningful boost to their weekly checks.

Funding

A temporary increase in UI benefit levels would be financed from state unemployment insurance trust funds.

See Appendix F for state-by-state data on UI trust funds.

Helping Eligible Families Claim Federal Tax Benefits

Proposal

To conduct outreach activities aimed at encouraging families that have lost jobs or income to claim the federal tax credits for which they qualify, such as the Earned Income Tax Credit (EITC) and the Child Tax Credit, as well as state EITCs in states that have them.

Rationale

Low-income working families may be eligible for thousands of dollars in federal tax credits. In 2002, for example, workers raising children can receive up to roughly $4,000 from the EITC. Through the Child Tax Credit, eligible families also can receive up to $600 for each child under age 17. Even families that earn too little to owe income tax can receive the EITC — and this year, for the first time, such families may receive a Child Tax Credit refund as well. In addition, 15 states and the District of Columbia have their own EITCs, which provide further tax benefits for low-income working families.

Outreach efforts to alert families to the availability of these tax credits take on added importance during the recession. Families that have lost income will badly need the boost the tax credits provide. The credits can help families cover child care costs and other work-related expenses. They also can provide relief for families under severe economic stress, enabling them to pay back bills, avert utility shut-offs or eviction, and buy groceries and cover the costs of other daily needs.

A change in a worker's employment situation may make the EITC more critical to the family's financial security. For example, a family's dependent care costs could increase if a family member who had been caring for a child or disabled relative has to go to work to compensate for another family member's decline in income. For such families, the EITC would be an important source of income. Also, some workers may rely more heavily on self-employment or day labor during the downturn or may be forced into employment situations in which they are classified as "independent contractors." This would complicate workers' tax circumstances and increase their costs if they seek help from a commercial tax preparer. Competent, free tax filing help can be essential for such workers.

Outreach is important also because many families will become newly eligible for the credits as a result of the downturn. For example, families whose incomes have been too high for them to qualify for the EITC in the past may become eligible if they lose their jobs for part of the year or if their work hours are cut back. Many of these families may not even be aware of the EITC or how to apply for it. Families that do know about the EITC may not realize that even if they are currently unemployed, they may qualify for the EITC based on their earnings earlier in the year.

States can do much to ensure that eligible families know about available tax credits and how to claim them. Linking families to free tax filing assistance sites is also critical since the high fees charged by commercial tax preparers erode the value of a family's credit.

Design Options

State agencies that administer public benefit programs can insert notices about the EITC and the Child Tax Credit in correspondence to beneficiaries. They also can display posters and distribute flyers in offices where families go to apply for benefits to help them weather the difficult economic times, such as food stamps, cash assistance, Medicaid, WIC vouchers, and energy assistance. Agencies in contact with child care providers can urge them to share tax credit information with the families of children in their care and remind them that members of their own staff are likely to qualify.

Unemployment offices are particularly useful outreach partners. They can include information on the EITC in Form 1099 benefit reports they mail to recipients, as long as the insert does not increase the cost of the mailing. In states where the 1099s are designed as self-mailers, an EITC message could be printed on the packet.

State labor and revenue agencies can provide information about the EITC and Child Tax Credit to employers, especially in industries hard hit by the recession, and encourage them to promote the credits to their employees. Since some state and county employees also may qualify for the tax credits, it also would be helpful to include this information with employee paychecks.

Other steps that states can take include:

- **Make special efforts to reach populations that may not realize they are likely to be eligible for tax credits.** Immigrants are at special risk of becoming unemployed during a recession because many of them work in industries that are sensitive to a poor economy, such as the hospitality industry. Immigrants who are legally authorized to work may not know they can qualify for the tax credits. To reach these families, promotional materials and tax filing assistance should be made available in languages other than English. Organizations that are trusted by immigrant families, such as schools, churches, and English as a Second Language classes, are important partners to enlist in such efforts.

  Other populations that states should target are foster parents, adoptive parents, and grandparents raising grandchildren, who may not realize they could be eligible. In addition, a non-custodial parent who can claim a child as a dependent on his or her tax return can qualify for the Child Tax Credit. (In contrast, a worker can claim the EITC only for a child who lives in his or her home for more than half the year.)

- **Incorporate tax credit outreach into the work of local welfare department staff.** Families that receive public benefits and hold jobs can qualify for the tax credits. They need to know that these credits generally are not counted in determining their eligibility for federal benefits such as Medicaid, food stamps, Supplemental Security Income, housing, and TANF. (States may have different rules for other benefit programs.)

  The Pennsylvania Department of Public Welfare sent each county welfare office manager a seven-step strategy for informing families about the EITC. The strategy included displaying posters in welfare offices and providing information on locations where families can receive free tax assistance through the IRS-sponsored Volunteer Income Tax Assistance (VITA) program.

- **Establish a toll-free EITC hotline.** Washington State's WorkFirst hotline provides callers with information about EITC eligibility, sends them the tax forms they need to claim the EITC, and refers them to local free tax filing assistance. Hotline staff also make calls to current and former TANF recipients who are working to be sure they know about the EITC and how to claim it.

- **Engage community organizations in helping families claim tax credits.** With funding provided by the state Department of Social Services, 19 community action agencies in Missouri conduct local outreach campaigns and work with the IRS to set up VITA sites where workers can get free tax filing help. In 2001, the sites helped 1,500 low-income families claim $2.5 million in tax refunds.

  The Illinois Department of Human Services helps support the Tax Counseling Project (TCP), which operates in 21 communities. In 2001 the TCP helped more than 10,000 low-income taxpayers claim over $10 million in tax refunds.

Funding

Federal TANF and state maintenance-of-effort funds can be used to support outreach activities.

Maintaining Spending on Low-income Programs During a Recession

Proposal

To ensure that adequate resources are devoted to programs that assist low-income families because of their particular importance during a recession.

Rationale

Providing funding for low-income programs in times of economic decline is important for a number of reasons. First, the need for low-income programs is most likely to grow when the economy weakens. Just as spending for defense programs naturally increases in times of war, spending on programs for families in poverty naturally increases in times of recession, when rising unemployment causes families to lose income and health insurance. A number of recent indicators demonstrate these growing needs:

- The number of unemployed workers increased from 5.7 million to 8.3 million between December 2000 and December 2001, the largest one-year increase since 1982.
- Medicaid spending increased by 18 percent from the last quarter of 2000 to the last quarter of 2001.
- Participation in the federal food stamp program increased from 17.86 million people in September 2001 to 18.44 million in October 2001, an increase of almost 600,000 people in just a single month. Participation continued to rise in November.
- Between March 2001 and September 2001, thirty-three states reported increases in TANF caseloads. In the remaining states, the rate at which TANF caseloads declined during this period slowed considerably, on average.

In addition to serving as a safety net for workers and families affected by the recession, low-income programs also serve as automatic "economic stabilizers," helping the economy as a whole. Without government action, an economic downturn can fall into a vicious cycle: rising unemployment and lost income leads to reduced consumer spending, which reduces demand for goods and services, which leads companies to impose additional production cutbacks and layoffs, and so on. Programs that assist the unemployed help arrest this process by allowing low-income families to continue spending on basic goods and services, propping up consumer spending and hastening economic recovery.

Thus, programs that assist those most affected by the economic downturn can be among the most effective and efficient means of economic stimulus because they provide funding to the people who are most likely to immediately inject those funds back into the economy. The cost of these programs then recedes when the economy recovers, minimizing the programs' long-term impact on state balance sheets.

Design Options

State governments play a key role in providing a safety net for low-income families. States are responsible for cash assistance to unemployed families as well as programs to assist with emergency relief, health care and job training.

- **Follow a balanced approach to closing budget gaps**. To avoid cutting back on low-income programs at the very time that the needs for these programs are greatest, states must take a balanced approach to budget balancing. In addition to spending cuts, states can fill their budget gaps by drawing down budget stabilization funds (also known as "rainy day funds") and raising revenues.

  More than 40 states now have rainy day funds or comparable reserve accounts. Rainy day funds and other reserves in states' enacted FY 2002 budgets total some $30 billion, or about 5.8 percent of state expenditures. In a number of states, reserves exceed 5 percent of state spending. (See Appendix H for state-by-state data on rainy day funds.)

Drawing down state rainy day funds can be a particularly effective way for states to protect their economy as well as their low-income programs during a downturn. Rainy day expenditures inject additional demand into the economy, while tax increases and spending cuts — particularly the latter — reduce consumption and therefore impede economic recovery.

Moreover, careful expenditure of rainy day funds need not imperil state bond ratings. Bond rating agencies recognize that rainy day funds exist to help states weather temporary fiscal downturns. As a recent Standard & Poor's publication noted: "Use of reserves is not a credit weakness in and of itself. These reserves are accumulated in order to be spent during times of budgetary imbalance and extraordinary economic events."

- **Prepare accurate estimates of spending needs**. To determine the amount of funding needed to maintain low-income programs, states should prepare current-service estimates of program costs. A current-service estimate is an estimate of the cost of maintaining a program at existing service levels, while adjusting for inflation and caseload changes. During an economic downturn, this will require frequent re-estimates of each program's future costs based on up-to-date estimates of its rising caseload. Without these estimates, policymakers cannot make informed decisions about necessary funding.

- **Prioritize spending cuts**. When spending cuts must be made, low-income programs should be low on the list for cuts because of their importance in bad economic times. Across-the-board cuts that reduce each program by the same percentage below the originally budgeted amount should be avoided because they penalize programs that are growing rapidly, such as low-income programs. Instead, states should consider cuts in programs that either have alternative revenue sources (such as higher education, which is funded in part by tuition payments) or are not experiencing recession-related cost increases (such as transportation).

Closing State Budget Deficits with Tax Increases Rather than Budget Cuts

Proposal

To minimize the damaging effects of the recession on the state economy by increasing taxes rather than cutting spending on programs affecting low-income families and individuals.

Rationale

Nearly all states are required to balance their budgets each year. This year, the recession has reduced state revenues below expectations, and most states are considering major spending reductions to close their budget shortfalls. If enacted, these cuts are likely to include reductions in programs that benefit low- and moderate-income families, even though such programs are particularly important during a recession. (In fact, programs that benefit low- and moderate-income families often grow rapidly in an economic downturn due to increasing joblessness and poverty and thus become tempting targets for cuts.) Spending cuts may also deepen and lengthen a state's recession because they take money out of the state economy, reducing the demand for goods and services.

In many states, the only way to avoid major spending cuts is to increase taxes. While states have some flexibility to use reserve funds and take other short-term actions (like moving pay days and postponing intergovernmental transfers), the magnitude of the deficits they face means that such actions are likely to be insufficient.

Economists Peter Orszag and 2001 Nobel Prize winner Joseph Stiglitz have noted that a tax increase can be less damaging to a state's economy than a spending cut because some of the tax increase results in reduced saving rather than reduced consumption. For example, if taxes increase by $1, consumption may fall by 90 cents and saving may fall by 10 cents. In other words, a tax increase does not reduce consumption on a dollar-for-dollar basis. Many spending reductions, in contrast, do reduce consumption on a dollar-for-dollar basis and therefore are more harmful to the economy.

The precise economic impact of a tax increase depends primarily on the "propensity to spend" of the persons whose taxes are raised — in other words, on the amount of each additional dollar of income they are likely to spend rather save. The more that tax increases are focused on those with *lower* propensities to spend (that is, on those who spend less and save more of each additional dollar of income), the less damage is done to the economy. Higher-income families tend to have lower propensities to spend than lower-income families, who generally must spend most or all of any new income they receive on essentials like food or shelter. Tax increases concentrated on higher-income families thus are less damaging economically than tax increases concentrated on lower- or moderate-income families.

Tax increases concentrated on higher-income families also are less damaging than cuts in programs that serve low-income families, such as cash assistance or Unemployment Insurance. This is because families aided by these programs tend to have more limited savings and more limited ability to borrow than higher-income families. Aid recipients therefore must respond to cuts in public assistance programs to a large extent by reducing their consumption. Higher-income families, in contrast, need not reduce their consumption to as large an extent in response to a tax increase.

For states interested primarily in the impact of budget-balancing measures on their own economy rather than the national economy, these arguments are even stronger. Government spending that would be reduced if direct spending programs are cut is often concentrated among local businesses. By contrast, the spending by individuals and businesses that would be affected by tax increases often is less concentrated among local producers, since part of the decline in purchases that would occur if taxes were raised would be a decline in the purchase of goods produced *out of state*. This is particularly true for expenditures by high-income families, who appear to consume relatively more goods and services produced in other regions of the country (or abroad) than lower-income families do. It is also true for multi-state corporations.

In addition, increases in income taxes and property taxes serve to reduce the *federal* income taxes paid by higher-income individuals and corporations, because such state taxes can be claimed as a federal tax deduction. This decline in federal income tax liability can have a small stimulative effect as well.

In sum, tax increases on higher-income families are the least damaging mechanism for closing state fiscal deficits in the short run. Reductions in government spending on goods and services, or reductions in transfer payments to lower-income families, are likely to be more damaging to the economy in the short run.

Design Options

States have a number of options for increasing taxes in ways that minimize negative effects on the economy by targeting tax increases to higher-income families and corporations. They include:

- **Closing corporate tax loopholes**. Most states have a number of tax provisions that allow certain corporations to avoid paying tax at the full statutory rate. States can raise revenue by repealing these provisions, thereby making the tax code more equitable across corporations. States that have recently closed corporate tax loopholes to help balance their budgets include Alabama, North Carolina and Ohio.

- **Creating new income tax brackets for upper-income taxpayers**. North Carolina recently created an 8.25 percent tax bracket for personal income over $120,000 per year, while the governor of Indiana has proposed a new 4.4 percent bracket for personal income over $90,000 per year.

- **Protecting state estate taxes.** Because of recent changes to federal tax law, many states' estate taxes — a tax paid typically by only the wealthiest 2 percent of estates — are being phased out, with substantial revenue losses expected to begin in fiscal year 2003. States can prevent this revenue loss by "decoupling" their estate tax from the federal estate tax on a temporary or permanent basis.

- **Taxing services**. Most state sales taxes apply to the purchase of goods, not services. Many of the services that are exempt from taxation, such as accounting and legal representation, are used mostly by higher-income families and by businesses. States could raise substantial revenue by closing those exemptions.

Using Low-income Tax Relief to Offset Regressive Tax Increases

Proposal

To offset the disproportionate burden of consumption tax increases on low-income families with targeted tax relief.

Rationale

When states must raise taxes in times of fiscal crisis, they often turn to consumption taxes. In the recession of the early 1990s, for instance, three-fourths of states substantially increased general sales taxes and excise taxes on items like gasoline, tobacco, and cigarettes. In three-fifths of states, such tax increases outweighed all other tax increases combined.

Consumption taxes are "regressive," imposing a disproportionate burden on lower-income families who must consume most or all of their income. Raising these taxes not only burdens families that can least afford to pay them (particularly in an economic downturn) but also hampers state efforts to help low-income families become more self-sufficient.

State and local tax systems are already quite regressive. A 1996 study by the Institute on Taxation and Economic Policy found that the poorest fifth of married non-elderly couples families pay 12.5 percent of their incomes in total state and local taxes, compared to 8.6 percent for the wealthiest fifth of families.

In most states, a consumption tax increase would make the tax system even more regressive. The ITEP study, for instance, suggests that in an average state the poorest one-fifth of families earn roughly 5 percent of total income but would pay about 10 percent of a general sales tax increase; the poorest two-fifths of families earn some 15 percent of income but would pay about 25 percent of a general sales tax increase and up to 32 percent of an excise tax increase. Those figures suggest that 10–30 percent of the revenue from a consumption tax increase should be set aside for tax relief for low-income families.

Design Options

Targeted tax relief might be structured as an expansion of an existing tax provision or enactment of a new provision. It need not be directly linked to the regressive tax being raised, and in fact such a linkage often is impractical. For example, in the case of a sales tax increase, it would be administratively difficult to provide targeted tax relief to poor families at the cash register when the tax is assessed. Instead, a sales tax rebate should be an annual payment that reflects the estimated taxes paid by a typical low-income family of a given size.

Even when intended to offset sales and property tax increases, low-income tax relief generally is best administered through a state's income tax because information on the taxpayer's income is available at the time the tax is levied. The nine states that lack income taxes must use other mechanisms to administer tax relief, such as requiring families to submit applications and using data from federal income tax returns to verify income status.

None of the options below would benefit all low-income families and individuals, but all would provide tax relief to a substantial portion of those most disproportionately burdened by an increase in sales and excise taxes.

- **State Earned Income Tax Credits.** EITCs provide tax reductions for low- and moderate-income working families. EITCs that are "refundable," meaning they provide a refund check to families whose credit exceeds their income tax liability, also supplement low-income families' wages.

  Through the federal EITC, the federal government provides some $30 billion in tax relief annually to about 20 million families and individuals, almost all of them families with children. Studies show that the EITC can be an effective inducement to work because at very low income levels, the value of a credit rises as earnings rise. (The credit phases out at higher income levels.) While families with incomes as high as $34,000 may qualify for a modest

EITC, most of the benefits go to families below the poverty line. The federal EITC lifts millions of families out of poverty each year.

In addition, 15 states plus the District of Columbia offer state EITCs that follow federal eligibility rules and supplement the federal credit. They are generally set as a flat percentage of the federal credit (ranging from 5 percent to over 40 percent) and provide a maximum benefit of between $200 and more than $1,500.

State EITCs complement welfare reform efforts because they are targeted to low-income working families with children. If a state EITC is refundable, it can go beyond reducing income tax liability to reduce the burden of other regressive taxes.

- **Sales tax credits and similar low-income credits.** About half a dozen states have low-income sales tax credits. Typically these are set at a flat amount per family member, with the amount declining as a family's income rises. In some states, such as Idaho and Oklahoma, the credit is explicitly identified as offsetting the state's sales tax on food. In other states, the credit is intended to reduce tax burdens broadly. For example, New Mexico provides a refundable "low-income comprehensive tax rebate" of up to $310 for a family of four.

  Sales tax credits should contain an automatic inflation adjustment. Taxpayers should be able to claim them through the income tax system (in states with an income tax) or, for non-filers, an independent application.

- **Property tax circuitbreaker.** Roughly 30 states offer property tax circuitbreakers to assist low-income families. These are credits, rebates, or vouchers based on a family's property tax burden (or rent) and its income. In most cases, the circuitbreaker is structured as a rebate the state provides eligible families as reimbursement for part or all of their property tax bill.

  Circuitbreakers usually are limited to elderly and disabled homeowners (and sometimes renters). But eight states plus the District of Columbia provide circuitbreakers to non-elderly families as well. Like sales tax credits, circuitbreakers should contain an automatic inflation adjustment and should be available to income tax filers and non-filers.

Funding

If a low-income tax relief provision is intended to offset a regressive tax increase, the appropriate funding source is the revenue generated by the tax increase itself. For instance, if a regressive tax increase generates $100 million per year, then $20 million may be set aside to finance tax relief for low- and moderate-income families, with the remaining $80 million available to balance the budget and meet the state's spending needs.

For example, in 1991, Minnesota raised its sales tax rate, broadened the tax base, and increased the cigarette tax to raise more than $200 million in new revenue. Of that amount, about $10 million was set aside to mitigate the impact on low-income families. In November 2000, Arizona voters approved a sales tax increase from 5 percent to 5.6 percent, which will raise an estimated $400 million annually. Most of the new revenue went toward school improvements, but the referendum measure set aside $25 million each year for a refundable sales tax credit for low- and moderate-income families.

There is another funding option. The refundable portions of state EITCs and similar credits may be funded with federal TANF dollars or counted toward a state's maintenance-of-effort requirement. During an economic downturn, however, states may need to reserve TANF and MOE dollars for cash assistance to newly unemployed workers.

Appendix A: Strategic Use of TANF Funds

Under TANF, each state receives a block grant of federal funds that may be used for specified purposes and that is subject to a set of federal requirements. In order to receive federal block grant funds, a state must meet a "maintenance-of-effort" (or MOE) requirement which mandates that states spend at least 75 percent of state spending on AFDC-related programs in 1994.

Federal funds remain available to states until they are spent, while MOE funds must be expended in the current fiscal year. In the early years of TANF implementation, many states accumulated reserves of unspent federal TANF funds. However states are now drawing upon those reserves to provide supports to a broad group of low-income families and to address increased needs associated with the current recession.

TANF funds are not considered "spent" until they have actually been disbursed by the state or a locality for the provision of a benefit or service. Unspent funds are reported to the federal government in two categories: unliquidated obligations — funds that have been obligated to be spent in a specific way at a later time (usually through a contract), and unobligated funds — funds that may have been appropriated or designated for a specific purpose, but have not been obligated through a contract.

As a result, funds defined by the federal government as "unspent" include funds that have been appropriated by state legislators for specific purposes but not yet expended and resources that have been set aside as a "rainy day" fund to be used during a recession, as well as funds for which no plans have been made by the state.

Unobligated balances of TANF funds from prior years may only be spent on "assistance" or on the related administrative costs of providing assistance. Assistance refers to services or benefits designed to meet a family's ongoing basic needs. All other spending is considered "non-assistance."

In order to maximize the funds available for non-assistance during an economic downturn, a state could first draw upon unobligated balances from prior years to cover assistance costs, and use current year federal TANF and MOE funds to provide non-assistance benefits and services. In addition, if a state obligates funds for use on non-assistance, it has until the end of the following fiscal year (i.e. an additional year) to spend those obligated funds on non-assistance. For example, a state that obligated $1 million for transportation subsidies for working families in fiscal year 2001, could spend those funds in fiscal year 2001 or 2002. If the state had not obligated those funds, they could not be spent on such non-assistance transportation subsidies in fiscal year 2002.

Some of the restrictions placed on TANF funds do not apply to MOE funds, although different limitations apply. States must use MOE funds for needy families and in a manner that is reasonably calculated to accomplish one of the purposes of the federal welfare law.

MOE funds that are spent in a separate state program (one that receives no federal TANF funds), are not subject to work participation rates, time limit restrictions, or child support assignment requirements. A state may create separate state programs to serve individuals who may not qualify for federal TANF benefits, such as certain immigrants, individuals for whom work or educational activities that are restricted under TANF provide the best opportunities for employment, or families that have exceeded their 60-month time limit.

States also can achieve flexibility by "segregating" federal TANF funds and state MOE funds within its TANF program. Some restrictions that apply to TANF-funded assistance do not extend to segregated state MOE funds even if they are used within a program that is partially financed with federal TANF funds. To segregate state MOE, a state could provide MOE-funded aid to certain groups of families, such as those who have received assistance for more than 60 months, and use federal TANF funds to provide aid to other families. It is important to note, however, that under this approach other TANF requirements — including child support assignment and work participation — still apply.

The following table shows unspent funds that remained available to states at the end of federal fiscal year 2001. When considering those unspent funds, however, it is important to bear in mind that in fiscal year 2001 a majority of states drew on unspent TANF funds from prior years. As a result, their current program level exceeds their annual TANF allocation. In order to avoid scaling back programs, those states are likely already to have allocated a substantial portion of unspent funds for specific purposes. Thus, only a portion of these unspent funds are likely to be considered available at the state level.

Unspent TANF Funds as of September 30, 2001 (end of federal fiscal year 2001)*
(in millions)

	Unobligated TANF Funds	Unliquidated Obligations of TANF Funds	Total Unspent Funds
Alabama	$90.8	$6.7	$97.5
Alaska	$4.4	$9.5	$13.9
Arizona	$10.6	$87.4	$98.0
Arkansas	$0.0	$4.5	$4.5
California	$0.0	$1,383.9	$1,383.9
Colorado	$0.0	$87.0	$87.0
Connecticut	$0.0	$31.0	$31.0
Delaware	$0.0	$0.4	$0.4
Dist. of Col.	$1.4	$72.5	$73.8
Florida	$0.0	$344.3	$344.3
Georgia	$132.6	$82.6	$215.1
Hawaii	$44.2	$3.8	$48.0
Idaho	$11.8	$9.3	$21.1
Illinois	$0.0	$0.0	$0.0
Indiana	$23.1	$24.9	$48.0
Iowa	$9.7	$5.3	$15.0
Kansas	$6.6	$0.0	$6.6
Kentucky	$0.0	$2.7	$2.7
Louisiana	$104.2	$118.7	$223.0
Maine	$11.3	$17.6	$29.0
Maryland	$79.3	$12.1	$91.4
Massachusetts	$6.1	$62.2	$68.3
Michigan	$129.4	$0.0	$129.4
Minnesota	$84.1	$79.8	$163.9
Mississippi	$29.5	$50.5	$80.0
Missouri	$0.0	$0.0	$0.0
Montana	$27.4	$0.0	$27.4
Nebraska	$14.8	$0.0	$14.8
Nevada	$31.2	$3.9	$35.1
New Hampshire	$15.4	$0.0	$15.4
New Jersey	$93.5	$286.2	$379.7
New Mexico**	$35.3	$14.1	$46.9
New York	$572.6	$686.4	$1,259.0
North Carolina	$71.7	$0.0	$71.7
North Dakota	$11.2	$0.2	$11.4
Ohio	$295.3	$207.0	$502.3
Oklahoma	$137.1	$0.0	$137.1
Oregon	$0.0	$20.1	$20.1
Pennsylvania	$37.1	$499.4	$536.5
Rhode Island	$0.0	$0.0	$0.0
South Carolina	$0.0	$30.5	$30.5
South Dakota	$16.8	$2.5	$19.3
Tennessee	$59.8	$22.1	$81.9
Texas	$0.0	$229.8	$229.8
Utah	$46.5	$3.6	$50.2
Vermont	$5.7	$0.0	$5.7
Virginia	$0.0	$32.5	$32.5
Washington	$18.1	$105.0	$123.1
West Virginia	$67.3	$27.1	$94.4
Wisconsin	$165.7	$69.3	$235.0
Wyoming	$52.7	$5.2	$57.9

* In fiscal year 2001 a majority of states drew on unspent TANF funds from prior years. As a result, the cost of maintaining their current program level exceeds their annual TANF allocation. In order to avoid scaling back programs, those states are likely already to have allocated a substantial portion of unspent funds for specific purposes. Thus, only a portion of these unspent funds are likely to be considered available at the state level.

** Does not include unobligated balance of fiscal year 2000 grant.

This data will be discussed in greater detail in a paper authored by Zoe Neuberger that will be released shortly by the Center on Budget and Policy Priorities.

Source: Center on Budget and Policy Priorities analysis of data reported by states to the U.S. Department of Health and Human Services.

Appendix B: Welfare-to-Work Funds

The Balanced Budget Act of 1997 included $3 billion in Welfare-to-Work funds to help hard-to-employ individuals find and keep jobs. Welfare-to-Work grants were awarded by the Department of Labor in fiscal years 1998 and 1999 and grantees originally were given three years to spend the funds. In 2001, the Department of Labor Appropriations Act extended the availability of Welfare-to-Work funds for an additional two years for grantees that seek an extension. According to the most recent available data, $822 million remains available to states, some of which could expire in the next few months if states do not seek an extension.

Welfare-to-Work funds were distributed in two ways: three-quarters of available funds were awarded to states under a statutory formula and the remaining quarter was awarded competitively by the Department of Labor to public and private local entities. This Appendix focuses on the formula grants to states. In order to receive formula funds, a state had to commit to provide $1 in matching funds for every $2 in federal funds it received. The final program regulations enhanced flexibility regarding what may be counted toward the match. Now up to 75 percent of the state match may consist of third party in-kind contributions while the remaining 25 percent must be cash. State matching funds need not be expended in the year of the grant award, but rather over the entire period in which federal funds are spent.

The state may retain 15 percent of its formula funds for administration and special projects but the rest must be passed along to local Workforce Investments Boards (WIBs) based on a statutory formula that takes into account the relative neediness of local populations. A state may not reallocate funds between local jurisdictions. If a governor wishes to award the local formula grant funds to an entity other than a WIB or if a particular WIB is not effectively spending its Welfare-to-Work funds, the governor can seek a waiver from the Department of Labor to designate an alternative administering agency for that area.

Welfare-to-Work funds may be used for activities that help individuals with barriers to employment make the transition into the workforce. Activities that may be funded with Welfare-to-Work grants include on-the-job training, community service or work experience, wage subsidies, individual development accounts, vocational education, job preparation, job search assistance, and job retention supports.

Welfare-to-Work funds must be targeted to particular categories of individuals with barriers to employment. Specifically, up to 30 percent of the funds in a grant may be used to serve youth who have aged out of foster care, custodial parents with incomes below poverty, and TANF recipients who face barriers to self-sufficiency or have characteristics associated with long-term benefit receipt. The remaining funds must be devoted to providing services to TANF recipients who have received assistance for at least 30 months and have already reached, or are within 12 months reaching welfare time limits and to certain non-custodial parents.

States may extend the period in which they can expend Welfare-to-Work federal or matching funds up to a maximum of five years from the date of their grant award. In order to obtain an extension, the state must submit a letter requesting an extension and a state plan modification (see citation below for more information). To date, all states with outstanding 1998 grant funds have requested extensions, although some discontinued their programs and returned unspent funds. Fifteen states with unspent funds from fiscal year 1999 grants have not yet requested an extension: Alaska, Arkansas, Hawaii, Indiana, Maine, Maryland, Massachusetts, Montana, New Hampshire, New Mexico, North Carolina, Vermont, Washington, West Virginia, and the District of Columbia. Fiscal year 1999 grants in those states expire in June through September of 2002.

The following table shows the most recent data available (through September 30, 2001) about which states have Welfare-to-Work formula grant funds remaining, the matching funds the states still need to expend, and which states still need to request an extension in order to continue spending federal funds for up to an additional two years.

For further information, see:

- Training and Employment Guidance Letter No. 15-00– "Guidance and Instructions for Requesting an Extension and Related Revisions to Welfare-to-Work Formula and Competitive Grants and Welfare-to-Work Formula State Plans," U.S. Department of Labor, March 8, 2001,http://wtw.doleta.gov/documents/tegltein/15-00.htm.

- "Welfare-to-Work Questions and Answers," U.S. Department of Labor, http://wtw.doleta.gov/qsanda.asp.

Welfare-to-Work Formula Grants to States

	Remaining Federal Funds from FY 1998 Formula Grant	Date FY 1998 Funds Expire[1]	Remaining State Matching Funds Required	Remaining Federal Funds from FY 1999 Formula Grant	Date FY 1999 Funds Expire	Remaining State Matching Funds Required
Alabama	$12,290,005	06/30/03	$3,773,668	$13,016,958	09/28/04	$6,508,479
Alaska	***			$1,202,191	**09/09/02** **	$270,636
Arizona	$6,380,693	08/11/03	$3,339,953	*		
Arkansas	$510,200	05/05/03	$0	$5,828,160	**09/28/02** **	$3,531,287
California	$19,833,927	12/30/99	$30,876,934	$120,309,252	06/15/04	$88,613,768
Colorado	$4,144,049	06/30/03	$719,629	$8,525,405	09/28/04	$4,511,442
Connecticut	$492,642	07/30/03	$0	$3,055,873	09/28/04	$0
Delaware	$1,297,326	07/20/03	$852,148	*		
Dist. of Col.	$48,870	08/30/02	$24,435	$3,141,526	**09/23/02** **	$1,570,763
Florida	$22,790,606	09/27/03	$3,781,711	$41,022,461	09/28/04	$3,530,751
Georgia	$3,182,252	05/05/03	$1,591,126	$12,569,513	09/28/04	$8,140,229
Hawaii	$349,300	02/28/03	$0	$3,673,899	**09/28/02** **	$1,308,412
Idaho	*			*		
Illinois	$2,760,451	02/02/03	$0	$26,525,249	07/13/04	$0
Indiana	$4,969,642	06/30/03	$668,730	$8,992,578	**09/01/02** **	$6,355,745
Iowa	$542,677	06/30/03	$900	$4,374,363	06/30/04	$1,338,540
Kansas	$476,932	04/14/03	$0	$4,193,552	06/30/03	$2,332,669
Kentucky	$2,374,680	04/21/03	$23,637	***		
Louisiana	$2,576,873	02/02/02	$229,277	$13,575,332	01/19/03	$9,652,582
Maine	***			$4,548,234	**09/28/02** **	$2,351,718
Maryland	$5,067,476	08/16/03	$2,586,589	$9,894,961	**09/27/02** **	$5,162,244
Massachusetts	$1,679,362	03/31/02	$1,090,771	$7,417,840	**09/23/02** **	$9,630,175
Michigan	$33,451,989	02/23/03	$16,786,083	$39,345,466	09/28/04	$19,672,733
Minnesota	$390,764	03/09/03	$0	$6,387,064	06/30/04	$792,614
Mississippi	*			*		
Missouri	$1,334,497	03/31/03	$667,248	$8,675,019	01/19/04	$4,337,510
Montana	$0		$0	$88,205	**08/29/02** **	$0
Nebraska	$135,274	02/08/03	$0	$2,309,764	11/30/03	$1,228,186
Nevada	$457,671	02/11/03	$0	$3,123,726	02/25/04	$195,565
New Hampshire	$1,631,172	08/08/03	$880,317	$2,574,375	**09/21//02** **	$1,287,188
New Jersey	$5,984,596	09/27/03	$8,928,546	$17,105,027	06/30/04	$10,854,490
New Mexico	***			$3,773,086	**08/29/02** **	$2,226,943
New York	$33,495,440	09/15/03	$12,458,965	$81,674,026	09/27/04	$41,587,259
North Carolina	$1,929,437	06/30/03	$964,758	$14,446,421	**06/30/02** **	$5,940,485
North Dakota	$992,510	12/31/02	$169,991	*		
Ohio	*			*		
Oklahoma	$1,215,588	06/30/03	$122,750	$7,754,058	09/28/04	$197,606
Oregon	$0		$0	$0		$0
Pennsylvania	$15,773,975	06/30/03	$79,128	$28,747,244	06/30/04	$4,412,703
Rhode Island	$561,447	06/30/03	$9,929	$3,023,709	06/30/03	$54,742
South Carolina	$941,592	02/23/03	$436,415	$4,766,087	04/26/04	$2,305,540
South Dakota	*			*		
Tennessee	***			***		
Texas	$13,363,764	07/30/03	$2,619,104	$38,343,059	09/28/04	$17,640,739
Utah	*			*		
Vermont	$0		$0	$259,439	**06/07/02** **	$1,255,890
Virginia	$2,863,601	08/25/03	$0	$12,940,357	09/26/04	$3,909,356
Washington	$1,293,414	06/30/02	$0	$11,106,770	**09/26/02** **	$4,347,864
West Virginia	$0		$0	$5,419,755	**09/28/02** **	$2,104,961
Wisconsin	$5,250,101	06/30/03	$2,600,111	$10,376,447	06/08/04	$5,142,538
Wyoming	*			*		
Total	$216,873,464		$96,282,845	$605,453,894	$918,610,203	$284,304,344

[1] All states have either received extensions for their 1998 grants, spent all their funds, or discontinued their programs.
* State chose not to receive grant.
** State has unspent funds and may obtain a two-year extension on expiration of federal formula grant.
*** State discontinued its programs and returned remaining unspent funds to the Treasury.
Center on Budget and Policy Priorities calculations based on data reported to the Department of Labor for the quarter ending September 30, 2001

Appendix C: Funds in the Medicaid "Delinking Fund"

The1996 federal welfare law allocated $500 million to the states to cover the administrative costs associated with activities to ensure that children and parents do not lose Medicaid as a result of the new law's changes to the welfare system. The fund, often referred to as the "TANF delinking fund" or simply the "$500 million fund," can be used for a host of allowable activities including revamping computer systems and notices to implement delinking Medicaid from TANF, outstationing Medicaid eligibility workers in community settings and other outreach activities. Money from the fund is available to states at an enhanced matching rate of 90 percent for most activities. Although Congress initially had imposed a sunset date on the use of the funds, this sunset later was lifted so that now states have access to the funds until they fully expend their allocation.

$500 Million Fund for Delinking Medicaid and TANF
(As of June 30, 2001)

State	Original State Allocation	Amount Already Spent	Percent Of State Allocation Spent	Remainder of Original Allocation
Alabama	$6,504,897	$2,417,320	37.2%	$4,087,577
Alaska	$3,039,335	$516,960	17.0%	$2,522,375
Arizona	$7,961,603	$1,412,580	17.7%	$6,549,024
Arkansas	$5,095,513	$2,202,588	43.2%	$2,892,925
California	$83,719,457	$51,953,755	62.1%	$31,765,703
Colorado	$5,166,316	$1,804,498	34.9%	$3,361,818
Connecticut	$5,756,737	$1,790,643	31.1%	$3,966,094
Delaware	$2,801,757	$503,762	18.0%	$2,297,995
Dist. Of Col.	$3,259,072	$2,112,331	64.8%	$1,146,741
Florida	$22,262,238	$10,004,342	44.9%	$12,257,897
Georgia	$11,591,548	$2,860,488	24.7%	$8,731,060
Hawaii	$3,435,742	$0	0.0%	$3,435,742
Idaho	$3,288,535	$2,959,069	90.0%	$329,466
Illinois	$19,363,893	$10,705,590	55.3%	$8,658,304
Indiana	$7,545,162	$6,201,375	82.2%	$1,343,788
Iowa	$4,782,362	$4,755,890	99.5%	$26,473
Kansas	$4,496,386	$4,357,403	96.9%	$138,983
Kentucky	$7,269,014	$2,494,295	34.3%	$4,774,720
Louisiana	$9,029,185	$0	0.0%	$9,029,185
Maine	$3,569,238	$1,135,496	31.8%	$2,433,742
Maryland	$7,595,943	$3,241,327	42.7%	$4,354,617
Massachusetts	$9,463,490	$9,405,713	99.4%	$57,778
Michigan	$15,975,444	$11,958,501	74.9%	$4,016,943
Minnesota	$7,708,769	$7,708,775	100.0%	$0
Mississippi	$6,617,604	$1,596,557	24.1%	$5,021,047
Missouri	$8,561,965	$7,831,500	91.5%	$730,465
Montana	$2,764,134	$551,101	19.9%	$2,213,034
Nebraska	$3,308,247	$1,251,369	37.8%	$2,056,878
Nevada	$3,258,808	$3,258,808	100.0%	$0
New Hampshire	$2,875,952	$2,781,530	96.7%	$94,422
New Jersey	$11,012,253	$11,012,253	100.0%	$0
New Mexico	$4,860,333	$2,047,656	42.1%	$2,812,677
New York	$37,034,555	$14,566,156	39.3%	$22,468,400
North Carolina	$11,550,703	$1,804,974	15.6%	$9,745,730
North Dakota	$2,537,922	$2,537,926	100.0%	($4)
Ohio	$16,909,160	$10,757,906	63.6%	$6,151,254
Oklahoma	$5,938,082	$3,701,226	62.3%	$2,236,857
Oregon	$5,740,656	$3,740,243	65.2%	$2,000,413
Pennsylvania	$17,553,338	$13,623,617	77.6%	$3,929,722
Rhode Island	$3,459,771	$723,780	20.9%	$2,735,992
South Carolina	$6,221,783	$5,395,867	86.7%	$825,916
South Dakota	$2,642,597	$2,303,284	87.2%	$339,313
Tennessee	$9,250,889	$9,250,889	100.0%	$0
Texas	$27,523,805	$710,329	2.6%	$26,813,476
Utah	$4,006,172	$1,689,348	42.2%	$2,316,824
Vermont	$2,891,672	$1,678,268	58.0%	$1,213,405
Virginia	$8,531,522	$2,264,077	26.5%	$6,267,445
Washington	$10,443,170	$10,438,169	100.0%	$5,001
West Virginia	$5,420,593	$1,423,942	26.3%	$3,996,651
Wisconsin	$7,023,766	$4,775,512	68.0%	$2,248,255
Wyoming	$2,475,344	$190,522	7.7%	$2,284,822
United States	$491,096,432*	$264,409,510	53.8%	$226,686,945

* The total United States allocation does not sum to $500 million as territories are not included.
Source: Centers on Medicare and Medicaid Services (data reflect spending as of June 30, 2001)

Appendix D: SCHIP Funding Data

Created by the Balanced Budget Act of 1997, the State Children's Health Insurance Program (SCHIP) provides states $40 billion in new federal funding over 10 years to expand coverage to low-income uninsured children. States may use these funds to expand coverage for children under the Medicaid program (at an enhanced federal Medicaid matching rate) or to establish separate state health insurance programs; in either case, states must spend some of their own funds as a condition of receiving the federal SCHIP funds. Some states with SCHIP funds left over after covering children are using the unspent funds to cover low-income parents under Section 1115 waivers.

SCHIP Funding Data

State	Regular Medicaid Matching Rate	Enhanced SCHIP Matching Rate	FY2001 SCHIP Expenditures	SCHIP Funds Available at Beginning of FY2002*
Alabama	70.45%	79.32%	$41,648,444	$221,083,599
Alaska	53.01%	67.11%	$23,575,989	$45,580,110
Arizona	64.98%	75.49%	$47,987,128	$393,380,615
Arkansas	72.64%	80.85%	$2,466,751	$191,044,908
California	51.40%	65.98%	$311,456,793	$2,430,053,751
Colorado	50.00%	65.00%	$20,942,996	$139,296,007
Connecticut	50.00%	65.00%	$13,179,690	$116,358,592
Delaware	50.00%	65.00%	$2,289,891	$32,855,097
District of Columbia	70.00%	79.00%	$5,276,414	$34,818,910
Florida	56.43%	69.50%	$195,218,825	$680,929,112
Georgia	59.00%	71.30%	$77,077,452	$410,665,406
Hawaii	56.34%	69.44%	$3,042,648	$37,365,482
Idaho	71.02%	79.71%	$12,986,971	$57,354,505
Illinois	50.00%	65.00%	$39,112,147	$481,153,890
Indiana	62.04%	73.43%	$59,961,975	$285,636,529
Iowa	62.86%	74.00%	$24,846,556	$92,521,506
Kansas	60.20%	72.14%	$24,609,081	$86,574,479
Kentucky	69.94%	78.96%	$68,141,781	$228,253,752
Louisiana	70.30%	79.21%	$39,699,266	$276,270,097
Maine	66.58%	76.61%	$14,137,752	$54,435,500
Maryland	50.00%	65.00%	$92,879,868	$247,811,278
Massachusetts	50.00%	65.00%	$50,255,986	$228,813,521
Michigan	56.36%	69.45%	$37,514,282	$352,409,115
Minnesota	50.00%	65.00%	$691,689	$128,431,744
Mississippi	76.09%	83.26%	$48,998,466	$162,039,929
Missouri	61.06%	72.74%	$52,306,886	$230,267,098
Montana	72.83%	80.98%	$13,855,721	$40,220,589
Nebraska	59.55%	71.69%	$9,448,788	$53,411,389
Nevada	50.00%	65.00%	$14,481,406	$100,796,779
New Hampshire	50.00%	65.00%	$2,957,118	$38,872,799
New Jersey	50.00%	65.00%	$128,882,674	$343,516,853
New Mexico	73.04%	81.13%	$8,023,809	$196,872,982
New York	50.00%	65.00%	$343,753,853	$1,483,278,289
North Carolina	61.46%	73.02%	$70,869,193	$374,470,091
North Dakota	69.87%	78.91%	$2,479,750	$19,489,538
Ohio	58.78%	71.15%	$100,155,035	$391,415,823
Oklahoma	70.43%	79.30%	$25,903,211	$225,661,493
Oregon	59.20%	71.44%	$14,793,063	$146,887,088
Pennsylvania	54.65%	68.26%	$90,653,376	$385,066,991
Rhode Island	52.45%	66.72%	$18,343,906	$39,016,104
South Carolina	69.34%	78.54%	$48,516,408	$273,004,811
South Dakota	65.93%	76.15%	$5,229,694	$24,493,727
Tennessee	63.64%	74.55%	$14,439,397	$251,440,368
Texas	60.17%	72.12%	$264,017,608	$1,537,434,971
Utah	70.00%	79.00%	$22,558,457	$81,981,271
Vermont	63.06%	74.14%	$2,339,630	$13,241,466
Virginia	51.45%	66.02%	$28,926,766	$232,233,262
Washington	50.37%	65.26%	$5,534,659	$199,351,813
West Virginia	75.27%	82.69%	$22,197,075	$62,960,666
Wisconsin	58.57%	71.00%	$55,593,342	$169,115,602
Wyoming	61.97%	73.38%	$2,960,315	$24,125,150
United States			$2,627,219,981	$14,333,242,202

* This includes new grants for 2002 and unspent funds from the prior year.
Source: Centers for Medicare and Medicaid Services

Appendix E: How Receipt of Other Benefits Can Affect Food Stamp Eligibility

With millions of low-income families with children receiving food stamps, policy makers designing a comprehensive program to assist these families may wish to weigh the impact on families' food stamp eligibility that different types of benefits might have. This should not be a primary consideration: an inefficient or marginally useful service does not become a bargain simply because it does not adversely affect recipients' food stamp benefits, and even when a benefit does reduce a family's food stamp allotment, the reduction is almost always less than half of the value of the benefit being provided. Still, understanding the food stamp implications of a proposal can help give policy makers a fuller understanding of its likely impact on recipient families.

The Basic Structure of the Food Stamp Program

The Food Stamp Program is designed to fill the gap between the money a family has available to purchase food and the estimated cost of a rather spartan diet. Food stamps generally are available to families with gross incomes below 130 percent of the poverty line if they do not have more countable resources than the Program's rules allow and if they meet various other eligibility requirements. (As it is unlikely that any of the benefits described in this publication would adversely affect a family's ability to meet the Food Stamp Program's resource requirements, food stamp resource rules are not addressed in detail here.)

The amount of food stamp benefits an eligible household receives is based on its income: the greater a family's countable income, the more money it is assumed to have available to purchase food and the smaller an allotment it receives. (Although countable resources exceeding the Program's limits can disqualify a family from receiving food stamps, as long as a family is eligible, the amount of its resources do not affect benefit calculations.) As a result, the Program's rules about what does and does not count as income are important to determining the likely impact of proposed policies on households' food stamps. In addition, when calculating a family's benefit level, the Program allows deductions for certain household expenses, such as child care or unusually high shelter costs, that can have a significant impact on the amount of money the family has available to purchase food.

The Food Stamp Program's Definition of Income

In general, the Food Stamp Program counts as income any gain or benefit in the form of money payable to a household and does not count in-kind benefits or services. Both of these rules, however, are subject to significant exceptions. The types benefits that are excluded from income that are relevant to the proposals set forth in this publication are:

- reimbursements that are provided and used specifically for an identified expense other than normal living expenses;
- in-kind or vendor payments paid to a third party for a benefit or service provided to a recipient household;
- non-recurring lump sums;
- needs-based donations from a non-profit up to $300 in a quarter; and
- loans.

Federal food stamp regulations describe the terms of each of these exclusions in more detail.

Which Benefits Described in this Publication Would Count as Income for Food Stamp Purposes?

- **Benefits that likely would count as income for food stamp purposes:** cash assistance received because of time-limit exemptions and extensions; unemployment insurance benefits; wages from publicly-funded transitional jobs.

- **Benefits that likely would not count as income for food stamp purposes:** services provided in-kind to low-income families, such as child care, work, education, and training programs, or Medicaid coverage.

- **Treatment of benefit for food stamp purposes depends on how the benefit is provided or other circumstances:**

  — Vouchers or vendor payments for housing probably would not count as income as long as they do not represent payments diverted from the family's monthly cash assistance benefits.

  — Short-term aid designed to respond to a temporary crisis would not count as income under food stamp rules in many situations because it could be excluded as a non-recurring lump sum, as a reimbursement, or as a vendor payment. In rare cases where none of these exclusions apply, it could be counted as income.

Further detail on any food stamp impacts of the initiatives discussed in this paper is available from the Center on Budget and Policy Priorities. The provisions discussed can be found in the Food Stamp Act's definition of income and resources (7 U.S.C. § 2014(d) and (g) respectively); in implementing regulations (7 C.F.R. §§ 273.8 and 273.9); and in additional guidance provided at the USDA website at www.fns.usda.gov.

Appendix F: Unemployment Insurance Funds

The following table presents data on states' unemployment insurance (UI) funds. The first column shows the amount of revenue that states collected between October 2000 and October 2001 in UI taxes to be used for financing UI benefits. Funds in excess of the amount paid in benefits are saved in the UI trust fund. The amount in each state's UI trust fund account is shown in the second column.

The last column, Average High Cost Multiple (AHCM), is a measure of the financial stability of a state's UI system. The AHCM is calculated as a ratio between the Reserve Ratio (the amount in the trust fund account divided by estimated wages) and the average of the largest three of the past 20 High Cost Rates (the highest historical ratio of benefits to wages for a 12-month period). A state with a high AHCM — and thus a more stable UI system — has a trust fund balance that is large in relation to the amount it expends on UI benefits.

During an economic expansion, states should build up their trust fund to prepare for a an economic downturn. During a recession, unemployment rises and UI costs increase; states will need to expend more of their trust funds. However, some states do not build up their trust fund during expansions and instead rely on loans from the federal government to pay UI benefits during an economic downturn.

States with an AHCM below .75 may not have enough in reserve to pay out the additional levels of UI benefits that are required during a recession. As the table demonstrates, 11 states fall into this category. Two of them, Texas and New York, already have requested additional funds from the federal government to cover the UI benefits they expect to provide during the current downturn.

Unemployment Insurance Funds

State	Revenues from October 2000 to October 2001 (in thousands)	Trust Fund Balance (in thousands)	Average High Cost Multiple
Alabama	$182,513	$373,232	0.65
Alaska	$118,643	$224,338	1.03
Arizona	$161,628	$1,004,784	1.68
Arkansas	$168,814	$223,592	0.68
California	$2,935,772	$6,191,879	0.78
Colorado	$182,557	$764,076	1.05
Connecticut	$302,290	$688,829	0.96
Delaware	$56,462	$320,502	2.02
District of Columbia	$99,823	$301,894	1.05
Florida	$536,520	$1,956,082	1.40
Georgia	$145,041	$1,689,284	1.79
Hawaii	$123,297	$333,706	1.56
Idaho	$90,535	$248,250	0.95
Illinois	$1,082,036	$1,737,205	0.48
Indiana	$233,154	$1,436,477	1.57
Iowa	$208,794	$793,720	1.24
Kansas	$176,682	$505,498	0.93
Kentucky	$233,134	$606,827	0.77
Louisiana	$128,132	$1,526,787	1.36
Maine	$162,223	$400,440	1.43
Maryland	$282,823	$875,547	0.94
Massachusetts	$881,669	$2,041,533	1.01
Michigan	$1,007,771	$2,834,547	0.75
Minnesota	$350,075	$540,124	0.58
Mississippi	$102,885	$682,025	1.98
Missouri	$256,295	$357,466	0.55
Montana	$58,896	$183,288	1.42
Nebraska	$57,899	$156,925	0.99
Nevada	$227,339	$526,126	1.07
New Hampshire	$33,964	$331,680	2.01
New Jersey	$1,383,331	$3,246,059	1.15
New Mexico	$80,160	$582,183	2.79
New York	$2,005,194	$1,066,419	0.31
North Carolina	$331,157	$846,294	0.91
North Dakota	$40,431	$29,276	0.28
Ohio	$630,900	$2,096,754	0.64
Oklahoma	$58,356	$519,117	1.46
Oregon	$487,889	$1,544,483	1.48
Pennsylvania	$1,468,531	$2,721,644	0.68
Rhode Island	$141,502	$291,662	0.89
South Carolina	$178,033	$709,027	1.29
South Dakota	$14,485	$47,091	0.84
Tennessee	$288,524	$748,927	0.90
Texas	$1,100,017	$711,808	0.26
Utah	$68,425	$589,613	1.61
Vermont	$44,838	$312,181	2.54
Virginia	$155,001	$1,018,234	1.32
Washington	$1,003,413	$1,915,662	1.04
West Virginia	$136,495	$242,903	0.52
Wisconsin	$452,123	$1,681,262	1.08
Wyoming	$23,616	$192,692	1.61

Source: “Financial Information by State for CYQ: 2001.3,” UI Data Summary, U.S. Department of Labor, www.doleta.gov

Appendix G: Funds from the Tobacco Settlement

All fifty states and the District of Columbia receive annual payments from tobacco companies as a result of lawsuits against the industry. Forty-six states and the District of Columbia participated in a Master Settlement Agreement which provided for annual payments from the tobacco companies to the states. The other four states settled separately with the tobacco companies and also receive annual payments, although under a different formula.

The amount of tobacco revenue available to be used during this economic downturn will depend on how much of the money has been otherwise committed. States have chosen to administer the funds in one or more of four ways:

- **Placing revenue from the tobacco settlement in the state general fund**. Funds that have been placed in the general fund are likely already included in the state's budget and therefore do not constitute an additional revenue source for the state.

- **Setting up trust funds that set aside some or all of the funds for particular uses**. Some trust funds are governed by the normal appropriations process; others are governed by independent bodies. Depending on the structure of trust funds, some or all of the money may still be available either to be used within the context of the trust fund or redirected. In some cases, special rules governing the use of the trust funds may limit the state's ability to use the trust funds for purposes other than those for which they were designed.

- **Placing funds in endowments in which the principal must be preserved and only the interest may be spent**. Money placed in an endowment has not been budgeted and therefore would constitute additional funds available to a state if these funds were redirected. But like trust funds, some endowments are governed by special rules which make it more difficult to access the funds.

- **Securitizing some or all of the revenue**. Securitizing refers to a state "selling" a portion of the expected tobacco revenues to investors in exchange for a lump sum payment. If future payments have been securitized, the lump sum payment resulting from the securitization may have been used, or some of it may still be available.

The settlements placed no restrictions on the usage of the funds. Some states have chosen to use the funds for various health initiatives, including anti-smoking campaigns and Medicaid expansions.

This table shows the amount of funds that states have received to date from these settlements, and how the states are administering the funds. The first column in the attached table shows the amount of the most recent payment. For the states that participated in the Master Settlement Agreement, this shows the payment scheduled for January 2002, which was actually made on December 31, 2001. These states also will receive payments in April 2002. The April payments were originally scheduled to total $6.5 billion, with adjustments for inflation, volume of cigarette production for U.S. consumption, and the four non-settling states. Although it is difficult to project the exact amounts of the April payments, previous payments have been lower than anticipated because of a decline in volume of cigarette sales. Thus, the April payments will probably total less than $6.5 billion. For the four states that settled separately with the tobacco companies and did not participate in the Master Settlement Agreement — Florida, Minnesota, Mississippi, and Texas — the first column shows the total payment for 2002; these states will not receive an April payment.

Tobacco Settlement Funds

State	Most Recent Payment	Total Received To Date (including 2002)	Percentage of Future Funds Securitized	Management of Revenue
MSA states	(January 2002 payment)			
Alabama	$31,416,308	$260,114,210		General Fund, Trust Fund
Alaska	$6,636,918	$55,755,141	100%	General Fund, Securitization
Arizona	$28,651,280	$236,638,624		General Fund
Arkansas	$16,096,900	$136,868,410		General Fund, Trust Fund
California	$248,121,939	$2,038,402,722		General Fund
Colorado	$26,648,559	$223,867,631		General Fund, Trust Fund
Connecticut	$36,089,709	$296,485,227		General Fund
Delaware	$7,687,665	$63,155,692		Trust Fund
Dist. Of Col.[1]	N/A	N/A		Securitization
Georgia	$47,712,868	$400,823,583		General Fund
Hawaii	$11,699,831	$96,116,629		General Fund, Trust Fund
Idaho	$7,061,598	$59,322,481		Endowment
Illinois	$90,475,045	$760,058,674		General Fund
Indiana	$39,652,215	$313,108,623		General Fund, Trust Fund
Iowa	$16,905,714	$142,020,411	100%	General Fund, Endowment,
Kansas	$16,205,857	$136,252,121		General Fund, Trust Fund
Kentucky	$34,235,530	$281,453,367		General Fund
Louisiana	$43,842,325	$368,420,753	60%	General Fund, Trust Fund,
Maine	$14,955,646	$125,188,312		General Fund, Trust Fund
Maryland[2]	$43,941,673	$369,142,657		General Fund
Massachusetts	$78,514,833	$645,016,806		General Fund
Michigan	$84,598,707	$694,997,251		General Fund, Trust Fund
Missouri	$44,216,658	$376,983,984		General Fund
Montana	$8,257,043	$69,267,910		Endowment
Nebraska	$11,566,086	$97,163,400		General Fund, Trust Fund
Nevada	$11,856,636	$99,604,989		General Fund, Endowment
New Hampshire	$12,945,238	$110,749,880		General Fund
New Jersey	$75,171,585	$632,918,280		General Fund
New Mexico	$11,593,373	$97,392,416		General Fund
New York	$248,084,659	$2,033,322,242		General Fund
North Carolina	$45,337,928	$376,461,116		Endowment, Trust Fund
North Dakota	$7,115,019	$59,771,614		Endowment, Trust Fund
Ohio	$97,925,389	$822,647,115		Trust Fund
Oklahoma	$20,141,735	$169,206,161		General Fund, Endowment
Oregon	$22,309,716	$183,278,769		General Fund, Trust Fund
Pennsylvania	$111,714,606	$775,870,310		General Fund, Trust Fund
Rhode Island	$13,975,039	$117,399,415		General Fund
South Carolina	$22,867,372	$192,103,531	100%	Endowment, Securitization
South Dakota	$6,783,154	$56,984,264		General Fund, Trust Fund
Tennessee	$47,449,220	$401,795,837		General Fund
Utah[3]	$8,648,286	$72,651,966		General Fund, Endowment
Vermont	$7,993,203	$65,665,484		General Fund
Virginia	$39,748,296	$333,919,519		General Fund, Trust Fund
Washington	$39,913,749	$335,305,891		General Fund
West Virginia	$17,232,198	$144,762,882		General Fund
Wisconsin	$40,278,858	$330,900,246	100%	General Fund, Securitization
Wyoming	$4,827,706	$39,660,239		General Fund, Trust Fund
Non-MSA states	(2002 payment)			
Florida	$731,300,000	$1,405,700,000		Endowment, Trust Fund
Minnesota	$336,997,300	$1,122,508,300		General Fund, Trust Fund
Mississippi	$211,149,286	$690,530,062		Endowment
Texas	$974,220,834	$3,210,975,470		General Fund, Endowment

1. Before securitizing future tobacco payments in March 2001, the District of Columbia received approximately $63 million, of which $16 million was spent and the remainder was combined with the proceeds from securitization to pay off existing debt.
2. 25 percent of Maryland's payment is placed into a joint escrow account pending the settlement of lawyers fees.
3. 25 percent of Utah's payment is placed into an account at the U.S. District Court pending the settlement of lawyers fees.
Sources: National Conference of State Legislatures, "State Management and Allocation of Tobacco Settlement Revenue, 1999 to 2001," August 2001, and unpublished data from National Conference of State Legislatures.

Appendix H: State Rainy Day Funds

In most states, surplus balances are held in one of two funds: the general fund or the budget stabilization fund (also known as the "rainy day" fund). During a recession, a state can fill the gap that is likely to develop as revenues decline and the need for public services rises by drawing on either of these two types of funds.

In years where a state's revenues exceed its expenditures, the resulting surplus typically accrues first to the general fund. States may, however, choose to deposit surplus funds in their rainy day funds, which are specifically designed to receive excess revenues during good economic times; withdrawals generally are restricted to times of economic and fiscal adversity. In some states, surpluses are automatically diverted to the rainy day fund, while in others the legislature must appropriate the surpluses from the general fund to the stabilization fund. More than 40 states currently have some type of rainy day fund.

Estimated Rainy Day Fund Balances as of January 2002

State	Rainy Day Fund Balance ($ in Millions)	Rainy Day Fund Balance as a % of General Fund Expenditures
Alabama	13	0.2%
Alaska	2,399	99.4%
Arizona	147	2.2%
Arkansas	0	0.0%
California	0	0.0%
Colorado	0	0.0%
Connecticut	595	5.0%
Delaware	128	5.2%
Florida	941	4.6%
Georgia	735	5.0%
Hawaii	52	1.4%
Idaho	53	2.6%
Illinois	0	0.0%
Indiana	526	5.5%
Iowa	490	10.1%
Kansas	0	0.0%
Kentucky	119	1.6%
Louisiana	193	3.0%
Maine	102	3.9%
Maryland	563	5.2%
Massachusetts	1,293	5.7%
Michigan	739	7.9%
Minnesota	653	5.0%
Mississippi	168	4.7%
Missouri	152	1.9%
Montana	0	0.0%
Nebraska	110	4.1%
Nevada	136	7.4%
New Hampshire	55	4.8%
New Jersey	720	3.2%
New Mexico	396	10.2%
New York	627	1.5%
North Carolina	288	2.0%
North Dakota	0	0.0%
Ohio	600	2.7%
Oklahoma	341	6.5%
Oregon	0	0.0%
Pennsylvania	1,223	5.9%
Rhode Island	81	3.1%
South Carolina	63	1.1%
South Dakota	38	4.5%
Tennessee	178	2.4%
Texas	884	2.8%
Utah	125	3.2%
Vermont	44	4.9%
Virginia	903	7.3%
Washington	384	3.4%
West Virginia	63	2.1%
Wisconsin	0	0.0%
Wyoming	125	19.8%
Total US	17,445	3.3%
Dist. of Col.	101	2.8%

Sources: This table is based on one published by the National Association of State Budget Officers (NASBO) in *The Fiscal Survey of the States*, December 2001, which reflected projected rainy day funds as of the beginning of the state fiscal year. The NASBO table has been adjusted by CBPP to take into account actions taken by states since the start of the fiscal year and other technical adjustments. The sources of these changes were conversations with state officials and published state budget documents.

Appendix I: Resources for Additional Information

Program Modifications

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Expanding Unemployment Insurance
For Low-Wage Workers: State Legislative Highlights (1996-2001), National Employment Law Center, August 2001, http://www.nelp.org/pub6.pdf.

Helping Eligible Families Claim Federal Tax Benefits

For information, see "The 2002 Earned Income Tax Credit Outreach Kit ," http://www.cbpp.org/eic2002/index.html.

To order a free copy of the kit, e-mail eickit@cbpp.org. Or call the Center on Budget and Policy Priorities at (202) 408-1080.

Fiscal Strategies

Maintaining Spending on Low-income Programs During a Recession

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