Families Next

An Evaluation of Policy Recommendations from the Governor's Task Force on Families First

December 2005
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THE UNIVERSITY of TENNESSEE
Center for Business and Economic Research

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In January 2004, Governor Phil Bredesen formed the Governor's Task Force on Families First. This group of government officials, business and community leaders, advocates, contractors, and current and former clients was charged with critically evaluating Tennessee's welfare program. The Task Force issued their report in November 2004, recommending numerous policy changes and program improvements.

Families First is administered under a waiver from federal guidelines governing the Temporary Assistance to Needy Families (TANF) program. Tennessee's waiver is set to expire in June 2007, at which point Families First will be required to conform to federal TANF rules. The recent reauthorization of TANF involved some important changes in federal guidelines that will soon impact all state TANF programs. With these important changes on the horizon, it is important that Tennessee prepare for a slightly different policy regime by implementing important changes to program rules.

The Center for Business and Economic Research (CBER) at the University of Tennessee has been involved in welfare policy research for many years. Since well before the inception of Families First in 1996, CBER has been producing numerous evaluation reports and statistical overviews under contracts with the Tennessee Department of Human Services (TDHS). In 2005, TDHS asked CBER to evaluate the Task Force's recommendations in order to help program officials make sound policy recommendations in the coming legislative session.

This report contains detailed responses to the various recommendations in the Task Force's report. In many cases, we are able to base our recommendations directly on CBER research. For other recommendations, we present key findings from the growing body of welfare policy research, based either on national data or experiences from other states. Finally, in some cases the literature simply does not provide enough information for us to be able to make conclusive recommendations. This is especially true for the various recommendations regarding specific aspects of program administration and delivery.

For major policy recommendations, we present tables with similar program data for all 50 states, such that Tennessee's current and recommended policies can be viewed within the context of that national web of TANF programs. The vast majority of these tables are drawn from information in the Urban Institute's *Welfare Rules Databook* (2005) or the companion online Welfare Rules Database (WRD) (http://www.urban.org). These resources represent the single-best compendium of detailed information on welfare program features in all 50 states and the District of Columbia. Urban Institute researchers painstakingly gather details from each state welfare agency on a regular basis, usually with some lag due to the tedious nature of the data collection and cleaning process. Data in this report, which are the latest available from the WRD, are based on 2003 program rules.

We then present some of the arguments surrounding each recommendation, followed by our final recommendation. In some cases, we are also able to supplement our basic approach with simulations of the effects of certain policy changes on the Families First caseload using a 50-state model developed under a previous contract with TDHS.[1] This model uses detailed data on economic, demographic, and policy rules for each state from 1990 to 2003 to investigate the various determinants of welfare caseload trends.

To summarize our conclusions, we agree with most of the recommendations made by the Task Force and applaud the group for its careful and deliberate work on this important program. Specifically, we agree that the family cap and deprivation standard should be removed, child care and transportation access should be expanded, and education should continue to be emphasized. We also support the implementation of a diversion program. However, we advise TDHS to exercise caution with some of the more significant proposals, most notably those regarding the elimination of the interim 18-month time limit and the creation of employer-based subsidies for providing on-the-job training and employment. While the latter recommendations are based on valid concerns from members of the Task Force, we think existing policies could be restructured or refocused in a less dramatic fashion in order to address the same issues.

A number of CBER researchers made significant contributions to this report. Most of the details on state program rules were compiled by Eric Harkness, Derek Knapp, Daniel Murray, and Tonia Ruppenthal (all undergraduate assistants) along with Julie Marshall (Research Associate), who also performed all multivariate simulations and provided other important data. Authors of prior CBER research, upon which many of our recommendations are based, include William Fox (Director), Matthew Murray (Associate Director), Angela Thacker and Brad Kiser (Research Associates), and Karie Barbour, Tami Gurley, John Deskins, Brian Hill, and Laura Ullrich (current and former Graduate Research Assistants).

Donald Bruce
Associate Professor and Project Director

[1] *Assessment of Tennessee's Families First Caseload Trends: Update*. A Draft Report to the Tennessee Department of Human Services. Knoxville, TN: University of Tennessee Center for Business and Economic Research, May 2005.

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Eliminate the Interim (18-month) Time Limit

Background

One of the more dramatic recommendations to come from the Governor's Task Force was a call to eliminate Tennessee's interim time limit. Despite the significance of this recommendation, very little defense was provided for it in the Task Force's report, save the claim that the time limit "has been a hindrance to many participants, serving as a barrier to the successful completion of educational and training programs" (p. 9). While we share this concern about possible negative incentive effects of the time limit, our general sense is that this problem could be adequately addressed without completely eliminating the 18-month time limit for all participants.

As shown in Table 1, only 13 states had some form of interim time limit in 2003. Six of these limited participants to a certain number of months of benefits within a certain time period, typically two years within a four-to-six year span. Another six states required a period of ineligibility ranging between three and 60 months between time-limited spells of participation that could last between 12 and 36 months. The other state with an interim time limit (Connecticut) actually allowed participants to apply for extensions to a 21-month limit, with an eventual lifetime limit of 60 months. It is easily observed that Tennessee's interim time limit is the shortest generally-applicable time limit in the nation, but that the required period of ineligibility between spells is rather short compared to other states.

Nearly all states had lifetime limits in 2003, with most of them lasting 60 months. States with no lifetime limits use state resources to provide benefits beyond 60 months. Seven states had lifetime limits that are less than 60 months, with a low of 24 months in Arkansas, Idaho, and Indiana. Delaware and Utah had 36-month limits and Florida and Georgia had 48-month limits.

Advantages and Disadvantages of Interim Time Limits

Perhaps the main advantage of an interim time limit is that it places pressure on TANF participants to work harder to achieve self-sufficiency. Knowing that the end of potential benefit receipt is on the horizon might make participants try harder to find and keep employment. The time limit reduces the welfare caseload by moving families off the system and reducing the entry of new cases; more details on caseload impacts are provided below. The smaller caseload might result in savings that can possibly be redirected to other uses.

As noted above, however, one problem in Tennessee is that 18 months is often not long enough for participants to complete necessary education and training programs. An additional cost is that the process of leaving Families First and returning a few months later, all because of the time limit, places a burden on program administrators and case managers. Finally, the process of granting time limit exemptions, extensions, and interruptions is difficult to manage efficiently and equitably.

Findings from the Recent Literature

Ochel (2004, p. 1) provides a comprehensive review of the literature on time limits, arriving at the following summary:[2]

> "Time limits affect welfare recipients both before and after their limits are reached. Time limits reduce welfare receipt and increase employment before recipients reach their limit, as recipients 'hoard' their months of eligibility for future use. Once recipients begin to exhaust their benefit entitlements, welfare use falls sharply. A large proportion of time limit leavers, however, continues to receive Food Stamps, Medicaid, etc."

Earlier studies found little to no effects of time limits on welfare use, but more recent research has resulted in several key findings. First, Grogger and Michalopoulos (2003) conclude that the incentive to leave TANF before a time limit is reached falls with the age of the youngest child.[3] Families with very young children have longer time horizons over which they could possibly need public assistance, so they will exit program rolls earlier in order to conserve benefits for future use. Grogger and Michalopoulos conclude that time limits would have reduced Florida's caseload by about 16 percent in the absence of other program rules that increased welfare use. Three studies by Grogger (2002, 2003, and 2004) confirm this general result, using national data to conclude that time limits reduce welfare use by 6 to 7 percent, effects are stronger the younger the youngest child in the family, and time limits were responsible for about one-eighth of the decline in welfare use in the late 1990s.[4] Meyer and Rosenbaum (2001) find that meeting a time limit increases employment.[5]

Given the wide variation in state time limit policies, it is important to consider findings from Tennessee data. CBER research has revealed a number of arguments in favor of removing the 18-month time limit.[6] First, our evidence suggests that time limits and associated exemptions

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[2] Ochel, Woflgang. "Welfare Time Limits in the United States – Experiences with a New Welfare-to-Work Approach," CesIfo Working Paper No. 1210, June 2004 (http://www.cesifo.de/~DocCIDL/1210.pdf).
[3] Grogger, Jeffrey, and Charles Michalopoulos. "Welfare Dynamics under Time Limits." *Journal of Political Economy* 111(3): 530-554, 2003.
[4] Grogger, Jeffrey. "The Behavioral Effects of Welfare Time Limits." *American Economic Review Papers and Proceedings* 92(2): 385-389, 2002.
Grogger, Jeffrey. "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Headed Families." *The Review of Economics and Statistics* 85(2): 394-408, 2003.
Groggery, Jeffrey. "Time Limits and Welfare Use." *Journal of Human Resources* 39(2): 405-424, 2004.
[5] Meyer, Bruce, and Daniel T. Rosenbaum. "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers." *Quarterly Journal of Economics* 66: 1063-1114, 2001.
[6] Barbour, Karie, Donald Bruce, and Angela Thacker. *An Examination of Time Limits in Tennessee*. A Report to the Tennessee Department of Human Services. Knoxville, TN: University of Tennessee Center for Business and Economic Research, October 2001.
Ullrich, Laura, Donald Bruce, and Angela Thacker. *Welfare Time Limits in Tennessee: An Update*. Knoxville, TN: University of Tennessee Center for Business and Economic Research, June 2005.
Barbour, Karie, Donald Bruce, and Angela Thacker. "Welfare Program Reentry among Post-Reform Leavers." *Southern Economic Journal* 70(4): 816-836, 2004.
Ullrich, Laura, Donald Bruce, and Angela Thacker. *Post-Reform Welfare Reentry in Tennessee: An Update*. A Report to the Tennessee Department of Human Services. Knoxville, TN: University of Tennessee Center for Business and Economic Research, October 2005.

and interruptions might not be fairly administered on a statewide basis. Specifically, we find that black and urban participants are more likely to meet the time limit and are less likely to receive an exemption or interruption. Second, only 5 percent of all case closures between September 1996 and September 2004 were the result of actually meeting the 18-month time limit. Most closures were for employment and income reasons. Interestingly, we find that participants are more likely to meet the 18-month limit during economic recessions, when program support is perhaps needed most. Finally, those who meet the 18-month limit are statistically more likely to return to Families First at a later date.

While all of this suggests that Tennessee's 18-month time limit should be removed, TDHS should consider the following important caveats. First, we are not able to determine the effects of the 18-month time limit on participants who do not actually meet the time limit. For example, the limit might encourage some participants to find employment earlier than they might otherwise choose to do. That employment might then make the family ineligible for Families First benefits before the time limit is reached. Second, to the extent that the time limit interferes with education or training programs, perhaps a revision of current time limit exemption policies (to exempt participants in such programs) would be more effective than removing the time limit for all participants. Third, removing the 18-month time limit will likely increase the Families First caseload, as discussed in the next section.

How Might the Removal of Tennessee's Interim Time Limit Affect the Families First Caseload?

CBER's 50-state model can be used to simulate the likely effect of the removal of the interim time limit on the Families First caseload. To begin, we use model estimates along with Tennessee's actual program rules and economic data to generate the model's prediction of the 2003 Families First caseload. We then generate a new prediction by assuming that Tennessee removes the 18-month time limit in 2003 while all other data and program features in the model remain unchanged. This exercise yields the prediction that *removing the 18-month time limit would have increased the 2003 Families First caseload by about 9 percent*. This result is driven, of course, by experiences in the other states with interim time limits while controlling for other important differences in economics, demographics, and policy rules.

Results from Recent Tennessee Surveys of Families First Participants

The *Family Assistance Longitudinal Survey*, a regular survey of a large group of current and former Families First recipients who were all on the program in January 2001, includes some interesting questions about time limits. The most recent (sixth) wave of the FALS, administered between October 2004 and February 2005, revealed that about 78 percent of respondents who were on Families First at the time of the survey had been told by a case worker about the time limit. However, only about one-quarter of program participants actually knew how many months of benefits they had left.

Participants were evenly divided on whether or not they thought they would stay on Families First cash assistance until they reached their time limit. This is not representative of the overall caseload, however, because respondents who were still on or back on the program as of the sixth wave of the FALS were more likely to have been long-term or repeat recipients who were closer to their time limits (the original FALS sample included those on the program in January 2001).

Among current participants who reported having a work activity requirement, nearly one-third said that the time limit made them more nervous about finding and keeping a job. Somewhat surprisingly, most of the remaining two-thirds said the time limit did not make them more nervous about finding and keeping a job. Those who reported being more nervous, however, were also less likely to be working at the time of the survey.

Conclusion

The above suggests that revisions to Tennessee's time limit policies are certainly in order. Rather than removing the 18-month time limit, however, we recommend the following policy changes:

1. Exempt participants in education and/or training of any form from the 18-month time limit but continue to count those months against the 60-month lifetime limit.

2. Undertake research and evaluation to explore the extent to which time limits, exemptions, and interruptions are administered fairly across the state.

3. Work with field offices and case managers to ensure that months of benefits are being counted accurately toward the appropriate time limits and that reasons for exemptions and interruptions are clearly documented and verifiable.

Table 1: TANF Time Limits by State, 2003

State	Lifetime Limit	Interim Limit	Wait Period between Spells	Only Adult's Benefits Terminated
Alabama	60			
Alaska	60			
Arizona	60			
Arkansas	24			
California	60			X
Colorado	60			
Connecticut	60	21 (a)		
Delaware	36			
D.C.	None			
Florida	48	24 of 60 or 36 of 72 (b)		
Georgia	48			
Hawaii	60			
Idaho	24			
Illinois	60			
Indiana	24			X
Iowa	60			
Kansas	60			
Kentucky	60			
Louisiana	60	24 of 60		
Maine	None			
Maryland	60			X
Massachusetts	None	24 of 60		
Michigan	None			
Minnesota	60			
Mississippi	60			
Missouri	60			
Montana	60			
Nebraska	60	24 of 48		
Nevada	60	24	12	
New Hampshire	60			
New Jersey	60			
New Mexico	60			
New York	None			
North Carolina	60	24	36	
North Dakota	60			
Ohio	60	36	24	
Oklahoma	60			
Oregon	None	24 of 86		
Pennsylvania	60			
Rhode Island	60			X
South Carolina	60	24 of 120		
South Dakota	60			
Tennessee	60	18	3	
Texas	60	12, 24, or 36 (b)	60	X
Utah	36			
Vermont	None			
Virginia	60	24	24 (c)	
Washington	None			
West Virginia	60			
Wisconsin	60			
Wyoming	60			

Notes:
(a) Recipients may apply for an extension after 21 months.
(b) Specific time limit depends on family history and/or characteristics.
(c) Wait period excludes months of transitional benefits.
Source: The Welfare Rules Database, http://anfdata.urban.org/WRD, © 2004, The Urban Institute.

Eliminate the Family Cap

Background

One of the major criticisms of the old Aid to Families with Dependent Children (AFDC) program was that its system of increased cash benefits for larger families gave mothers an incentive to have more children. With that in mind, many states implemented what are called family caps in the process of shifting toward TANF in the mid-1990s. Family cap policies essentially "cap" the assistance unit's size at the number of eligible adults and children (including unborn children) in the unit as of the case opening. In other words, the birth of an additional child does not increase the family's cash benefit amount in states with family caps if that child was conceived after the mother started receiving cash assistance.[7]

The obvious intent of family caps is to reduce the incentive to have more children while on TANF. As shown in Table 2, 22 states had some form of a family cap in place in 2003.[8] In 20 of those states, children born ten or more months after a TANF case opens are excluded, or "capped," from the assistance unit. Arkansas capped all children born while on assistance as of 2003, while the exclusion period in North Dakota was eight months. In eight family cap states, the capped child could be added to the assistance unit if the family exited TANF for a certain period of time—typically between three and 24 months—and then returned. In the other 14 family cap states, however, capped children were never permitted to be included in the assistance unit.

Tennessee's family cap is similar to most other states' in that children conceived on the program are capped. Capped children can be added to the assistance unit in Tennessee when the family reaches the 18-month time limit (or returns for the remainder of an 18-month spell) and then remains off Families First for three months before returning.

Advantages and Disadvantages

If family caps reduce the probability that a participating family conceives an additional child, the perceived benefits are that the family will have more resources per person and will be more likely to make ends meet. Having fewer children might also increase the probability that a mother will find and keep a job, thereby achieving self-sufficiency earlier. Family caps also reduce overall benefit spending, which might be seen as an advantage to program officials working to stretch limited budgets.

Alternatively, if family caps have no effect on fertility decisions, the policy simply reduces the amount of resources available per person in the assistance unit. The presence of a family cap might also increase the probability that a recipient would choose to terminate a pregnancy. Research on these issues has flourished in recent years and is described below.

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[7] A few states provide a reduced additional benefit, while others disregard the foregone incremental benefit from income in the benefit calculation process. Still others send the foregone benefit to a third party in exchange for services provided to the capped child or their family.

[8] A few of those states, including Maryland and Illinois, have since repealed their family caps. The WRD data in Table 2 is just the most recent 50-state summary of family cap policies at the same point in time.

Findings from the Recent Literature

Family cap policies have received significant attention in the recent academic literature, with the vast majority of the evidence suggesting that the presence of a family cap does not typically factor into a family's decision to have another child. Results from a careful and extensive study by Joyce, et al (2004, p. 504) "suggest that there have been no major reproductive responses to the family cap."[9] Dyer and Fairlie (2004) echo that same conclusion following a battery of detailed econometric comparisons of data from family-cap and non-family-cap states.[10] Perhaps Kearney (2004, p. 318) best summarizes the recent literature:

> "If this empirical result is correct, then the widespread adoption of family cap policies appears ineffective at best and misguided at worst. Women are not responding by having fewer additional births, and consequently, fewer resources are being provided per child on welfare."[11]

The lone exception to this general finding stems from what was intended to be a randomized experiment on family caps in New Jersey. Early indications were that birth rates were lower and abortion rates higher in the group subjected to the family cap.[12] Those results have been called into question, however, and are more than outnumbered by more recent findings such as those discussed above.[13] In sum, we would hesitate to recommend a policy change on the basis of the New Jersey findings alone. The general theme from the more recent research is that family caps are not likely to have significant effects on fertility decisions.

The limited available research on how family caps affect child well being has yielded mixed results. Paxson and Waldfogel (2003) investigate state-level data for 1990-1998 and conclude that states with family cap policies had fewer substantiated cases of child maltreatment but more instances of children in out-of-home care (mainly foster care).[14] Clearly, more research is needed on the extent to which children are affected by family cap policies.

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[9] Joyce, Ted, Robert Kaestner, Sanders Korenman, and Stanley Henshaw. "Family Cap Provisions and Changes in Births and Abortions." *Population Research and Policy Review* 23: 475-511, 2004.
Ryan, S., J. Manlove, and S. Hofferth. *State-Level Welfare Policies and Subsequent Non-Marital Childbearing.* Paper presented at the 2003 Association for Public Policy Analysis and Management Research Conference, Washington, DC.

[10] Dyer, Wendy Tanisha and Robert W. Fairlie. "Do Family Caps Reduce Out-of-Wedlock births? Evidence from Arkansas, Georgia, Indiana, New Jersey and Virginia." *Population Research and Policy Review* 23: 441-473, 2004.

[11] Kearney, Melissa Schettini. "Is There an Effect of Incremental Welfare Benefits on Fertility Behavior? A Look at the Family Cap." *The Journal of Human Resources* 39(2): 295-325, 2004.

[12] Cammasso, M.J., C. Harvey, R. Jagannathan, and M. Killingsworth. *A Final Report on the Impact of New Jersey's Family Development Program: Results from a Pre-Post Analysis of AFDC case heads from 1990-1996.* U.S. Department of Health and Human Services, 1998.
Cammasso, M.J., C. Harvey, R. Jagannathan, and M. Killingsworth. *A Final Report on the Impact of New Jersey's Family Development Program.* New Jersey Department of Human Services, 1998.

[13] See Joyce, et al (2004) and Kearney (2004) for summaries of this criticism, as well as references to related studies of New Jersey's experimental program.

[14] Paxson, Christina, and Jane Waldfogel. "Welfare Reforms, Family Resources, and Child Maltreatment." *Journal of Policy Analysis and Management* 22(1): 85-113, 2003.

How Might the Removal of Tennessee's Family Cap Affect the Families First Caseload?

Removing the family cap should not impact the caseload in terms of the number of families on the program. Current participating families with capped children would simply remain on the program at a higher benefit level, while few new families—if any—would be attracted onto the program. The number of individuals on assistance would, however, increase for obvious reasons.

Results from Recent Tennessee Surveys of Families First Participants

The most recent round of the Family Assistance Longitudinal Survey included a question about whether respondents had ever decided not to have another child as a result of the family cap policy. Results from that survey are unfortunately not yet available but will be added here as soon as they are tabulated.

Conclusion

The clear intent of the family cap was to reduce mothers' incentives to have additional children. We have no confidence that the policy has had this intended effect, however, and therefore agree that it should be eliminated. Our primary reason for this recommendation is that a removal of the family cap will increase the resources available to newborn children in Families First assistance groups. TDHS might consider a reduced incremental benefit for children conceived while the mother is on Families First, however. Specifically, the increased benefit for a second child that is born 10 months or more after a mother enters the program might be less than the difference in initial benefits for new program entrants with one versus two children.

Table 2: TANF Family Cap Policies by State, 2003

Exclusion Period = children born within this number of months of a case opening are excluded from the assistance unit.
Capping Period = number of months a family must be off assistance before a capped child can count as a member of the assistance unit.

State	Family Cap?	Exclusion Period	Capping Period
Alabama	No		
Alaska	No		
Arizona	Yes	10	Always capped
Arkansas	Yes	1	6
California	Yes	10	24
Colorado	No		
Connecticut	Yes	10	Always capped
Delaware	Yes	10	Always capped
D.C.	No		
Florida	Yes	10	Always capped
Georgia	Yes	10	Always capped
Hawaii	No		
Idaho	No		
Illinois	Yes	10	9
Indiana	Yes	10	Always capped
Iowa	No		
Kansas	No		
Kentucky	No		
Louisiana	No		
Maine	No		
Maryland	Yes	10	Always capped
Massachusetts	Yes	10	Always capped
Michigan	No		
Minnesota	Yes	10	10
Mississippi	Yes	10	Always capped
Missouri	No		
Montana	No		
Nebraska	Yes	10	6
Nevada	No		
New Hampshire	No		
New Jersey	Yes	10	12
New Mexico	No		
New York	No		
North Carolina	Yes	10	Always capped
North Dakota	Yes	8	12
Ohio	No		
Oklahoma	Yes	10	Always capped
Oregon	No		
Pennsylvania	No		
Rhode Island	No		
South Carolina	Yes	10	Always capped
South Dakota	No		
Tennessee	Yes	10	3
Texas	No		
Utah	No		
Vermont	No		
Virginia	Yes	10	Always capped
Washington	No		
West Virginia	No		
Wisconsin	No		
Wyoming	Yes	10	Always capped

Source: The Welfare Rules Database, http://anfdata.urban.org/WRD, © 2004, The Urban Institute.

Expand Child Care Availability

Background

The Task Force recommended that child care assistance be enhanced for non-parental caregivers, teen parents in high school, and working families with no connection to the Families First program. Tennessee currently provides subsidized child care assistance to Families First participants while on the program and for a period of 18 months following program exit. Any leftover child care assistance funds (drawn largely from federal grants for that purpose) were traditionally directed to non-Families-First households, but that was sharply curtailed in the wake of the most recent recession when budgets tightened.

Advantages and Disadvantages

Directing additional child care assistance to non-parent caregivers could mean that children in their care are less likely to be placed in foster care situations.[15] For teen mothers in high school, additional child care assistance could enable those mothers to remain in school. This might in turn reduce the chance of long-term assistance, as noted by the Task Force. Finally, additional child care assistance for low-income working families who are not connected to the Families First program might help reduce the Families First caseload. The obvious disadvantage from all of these is the significant expense of increased child care assistance.

How Might This Affect the Families First Caseload?

Figure 1 shows Families First and child care caseloads since January 1998.[16] The Families First caseload began to rise in mid-2000, prompting program officials to close the non-Families-First child care program to new entrants. Non-Families-First child care rolls then began a long, steady decline as participating families moved off the program and no new participants were enrolled. The Families First caseload continued its steady rise during this time. We are not able to formally test for a causal relationship, but the possibility exists that families began to enroll in Families First because they learned that full program participation was now the only way to receive state-funded child care assistance. These trends suggest that a restoration of child care assistance to non-Families-First households might reduce the Families First caseload, although we have no way of knowing the size of any impact without additional research. We return to this idea in our discussion of diversion programs below.

Results from Recent Tennessee Surveys of Families First Participants

The sixth round of the *Family Assistance Longitudinal Study* asked current and former Families First participants which program benefit was most important to them. Responses

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[15] A CBER study in progress is looking into the extent to which non-parent caretakers in Davidson County value more child care assistance relative to other potential new services. Results from this study, which is being funded by Nashville-Davidson County Metropolitan Social Services with data support from the Tennessee Department of Human Services, will be available in early 2006.

[16] It should be noted that Figure 1 shows the Families First caseload in terms of assistance groups, while the child care caseloads are counts of children rather than families.

among those participating in Families First at the time of the survey (between October 2004 and February 2005) were as follows:

CASH ASSISTANCE	37.6%
CHILD CARE	25.9%
EDUCATION AND TRAINING	18.5%
EMPLOYMENT ASSISTANCE	7.4%
TRANSPORTATION ASSISTANCE	1.8%
COUNSELING	2.8%
OTHER	4.9%
DON'T KNOW	0.9%
REFUSAL	0.1%

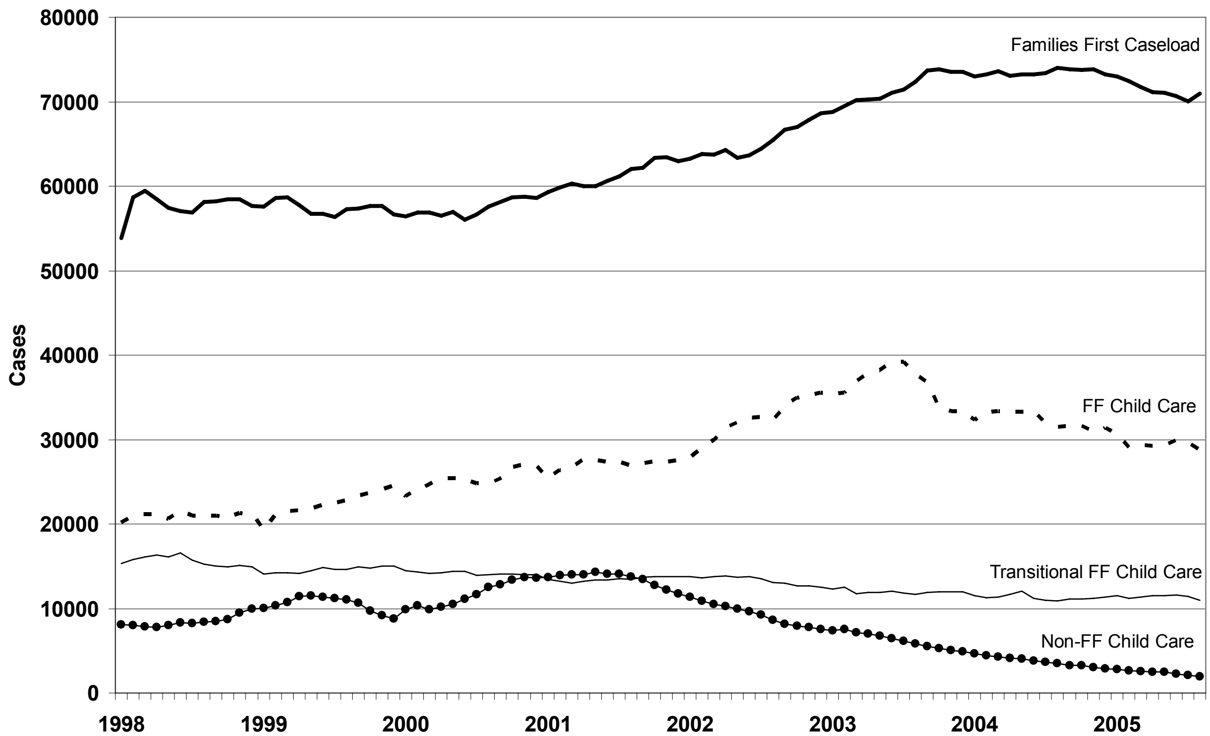
Results followed a similar pattern for former participants, revealing that *child care assistance is the most important non-cash component of Families First benefits for participating families*.

Additional survey results are provided in our discussion of diversion programs below, and reveal that many participating families would have preferred a limited-time child care benefit instead of full program participation. This confirms our general suspicion that many Families First participants are on the program for the primary reason of receiving child care assistance.

Conclusion

We recognize the importance of child care assistance among low-income working families and recommend that TDHS continue to provide this important benefit. Existing programs which provide assistance to non-parent caregivers in child-only cases and teen mothers in high school should be supported and expanded as funding permits. We also encourage TDHS to reinstitute child care assistance for qualified non-Families-First households with working parents, perhaps alongside a diversion program as discussed below. This could reduce the Families First caseload and generate savings for other program changes discussed in this report.

Figure 1: Families First and Child Care Caseloads: January 1998 to August 2005



Education Proposals

Background

The Governor's Task Force recognized the importance of education and recommended a number of education-related changes to current Families First policy. The general theme was that Families First should continue to allow individualized "mixed strategies" approaches to those in either adult education (AE) or employment as their primary activities. The Task Force specifically recommended re-tooling the AE curriculum in order to place more emphasis on work-related skill attainment. Another recommendation was to reinstate completion bonuses for reaching certain education, training, or employment milestones. A final education-related recommendation from the Task Force was to establish on-campus case managers at major post-secondary institutions in order to facilitate access to child care, work-study options, and job placement offices.

Table 3 provides an overview of work requirement policies in each state. While Tennessee is one of only three states with a 40-hour-per-week work activity requirement, it stands out as much for its liberal allowances for education and training. Families First participants can use up to 20 hours of their requirement for allowable education and training activities, more if their education level is low enough. In fact, those who test below the ninth grade level can satisfy their entire work requirement by participating in 20 hours of adult education per week. The small handful of states that allow more than 20 hours for education and training typically place many more restrictions on when and how those hours can be used, and by whom. Indeed, Tennessee's Families First program has long been a pioneer in its emphasis on education.

Advantages and Disadvantages

Those who favor work-first strategies claim that placing a welfare recipient into a paying job is the best way for that person to achieve self-sufficiency. The major problem with this approach is that many welfare recipients are simply not yet ready for the workforce. This is especially true in Tennessee, where a very large share of the Families First caseload has less than a high school equivalent education. Those who favor mixed strategies with more emphasis on education claim that equipping participants with necessary job-related skills will have more long-lasting effects on self-sufficiency.

Findings from the Recent Literature

Prior research has studied the relative merits of welfare-to-work programs that have an employment focus, those that have a skills development focus, and those that provide for a combination of activities. Specifically, work-first programs have been found to produce superior results in the short run when only compared to more education-oriented programs.[17] However,

[17] Fein, David J., Erik Beecroft, David A. Long, and Anne Robertson. *College as a Job Advancement Strategy: An Interim Report on the New Visions Self-Sufficiency and Lifelong Learning Project*. The New Visions Evaluation. Cambridge, MA: Abt Associates Inc., 2003.

any significant differences erode over time.[18] Broader analyses have found that mixed-approach strategies that adjust to suit individual needs are most successful.[19]

The literature is based primarily upon a series of experimental welfare programs that were conducted in several parts of the U.S. beginning as early as the late 1980s. The largest body of research on these programs is the National Evaluation of Welfare-to-Work Strategies, conducted by the Manpower Demonstration Research Corporation (MDRC).[20] Many states received waivers from AFDC program rules to perform these experiments, which typically involved the random selection of individuals into trial programs that placed a greater emphasis on either education and training or employment. Comparisons were then made between the outcomes of individuals in the experimental group (those assigned to the trial program) with those in a control group. The random assignment experiments were generally considered to be very useful because differences in outcomes could be more clearly attributed to differences in program rules rather than differences in participant groups.

Gueron and Hamilton (2001) synthesized several MDRC studies that included analyses of 20 random assignment programs. Of the 20 programs studied, eight were classified as having a mixed strategy. The authors concluded that the key to successful welfare programs is a balance of employment-focused activities and skill building activities, citing more stable employment and higher wages for participants in the mixed strategy programs.[21]

CBER research using Tennessee data has reached similar conclusions. Deskins and Bruce (2004) find that individuals who participated only in education and training while on the welfare rolls were significantly less likely to exit the program and significantly less likely to gain employment upon program exit, controlling for several other factors that influence these outcomes. However, hourly wages and work hours were not found to be statistically different for those with education-only requirements or activities relative to those with work-only requirements or activities.[22]

Perhaps the most significant finding was that, regardless of work requirement type, more education translates into better outcomes across the board. Rates of program exit and post-program employment, as well as hourly wages and work hours, tend to be higher for those who

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Freedman, Stephen, Daniel Friedlander, Gayle Hamilton, JoAnn Rock, Marisa Mitchell, Jodi Nudelman, Amanda Schweder, and Laura Storto. *National Evaluation of Welfare-to-Work Strategies*. New York, NY: Manpower Demonstration Research Corporation, 2000.

[18] Hotz, V. Joseph, Guido W. Imbens, and Jacob A. Klerman. "The Long-Term Gains from GAIN: A Re-Analysis of the Impacts of the California GAIN Program." Working Paper: University of California, Los Angeles, and RAND, 2001.

[19] Hamilton, Gayle, et al. *National Evaluation of Welfare-to-Work Strategies: How Effective Are Different Welfare-to-Work Approaches? Five-year Adult and Child Impacts for Eleven Programs*. New York, NY: Manpower Demonstration Research Corporation, 2001.

[20] Bloom, Dan and Charles Michalopoulos. 2001. *How Welfare and Work Policies Affect Employment and Income: A Synthesis of Research*. New York, NY: Manpower Demonstration Research Corporation.

[21] Gueron, Judith M. and Gayle Hamilton. *The Role of Education and Training in Welfare Reform*. Welfare Reform and Beyond, Policy Brief No. 20. Washington, DC: The Brookings Institution, 2002.

[22] Deskins, John, and Donald Bruce. *Work Requirements and Welfare: Work or Education First?* A Report to the Tennessee Department of Human Services. Knoxville, TN: University of Tennessee Center for Business and Economic Research, June 2004.

leave the program with more education. The differences in many cases are quite dramatic, suggesting that policies to promote educational attainment among Families First recipients can be quite fruitful in many ways. This theme is echoed in virtually every CBER report on Families First.

Completion Bonuses as a Component of Education Incentives

Completion bonuses were originally seen as effective incentives to get participants to put forth the necessary effort to obtain education and training and to find and keep jobs. Participants faced with a choice between a job now and a potentially higher-paying job later (after getting some additional education or training) could be convinced by the small incentive payment to pursue the longer-term strategy. Many participants received completion bonuses before they were phased out during lean budget years. This facet of the Families First program was expensive, not just in terms of the actual payments but also because administering the payment system was costly. Participants had to be monitored, and third parties (teachers, employers, etc.) had to verify the attainment of various milestones.

The University of Tennessee Center for Literacy Studies (CLS) was contracted by DHS to examine the effects of completion bonuses.[23] The 2001 CLS study of 955 participants in 16 adult education programs finds that, while completion bonuses did not speed up the time-to-completion among participants in these programs, it improved persistence. Specifically, those in programs offering completion bonuses were found to be much more likely to make learning gains than (a) participants in the pre-bonus era and (b) participants in programs without completion bonuses. Completion bonuses essentially had the important effect of reducing the rate at which participants dropped out of adult education programs.

Conclusion

We recommend the continued focus on education as part of Tennessee's mixed strategies approach. The extent to which the AE curriculum needs to be revitalized in this light is left up to program officials. However, we encourage TDHS to consider bringing back a limited set of education-oriented completion bonuses that might be less costly and easier to administer than the original system. For example, incentive payments could be made available for those who pass one education milestone (e.g., a GED or high school diploma) during their initial spell on Families First.

We do not recommend the establishment of on-campus case managers at major education institutions. While this proposal from the Task Force had reasonable goals, we are concerned that it might increase the negative stigma from receiving welfare benefits. It would also entail potentially significant start-up and monitoring costs. As a compromise, the program might consider designating a case manager in the nearest local office to focus on student cases.

[23] Ziegler, Mary, Olga Ebert, and Gail Cope. *Effectiveness of Completion Bonuses for Achievement in Adult Education*, University of Tennessee Center for Literacy Studies, 2001.

Table 3: TANF Work Requirement and Education/Training Policies by State, 2003

State	Weekly Work Requirement Hours Total	Max Educ/Training	Allowable Education/Training Activities
Alabama	32	7	All
Alaska	30		Vocational education training, job skills directly related to employment, education directly related to employment
Arizona	Variable		All
Arkansas	30		All
California	32		Adult basic education, vocational education and training, education directly related to employment, job skills training directly related to employment
Colorado	22		Vocational educational training, job skills training directly related to employment, education directly related to employment (high school, GED), secondary school
Connecticut	Variable		All except post-secondary education
Delaware	Variable		
D.C.	30	10	All
Florida	30	10	All
Georgia	30	10	All
Hawaii	32		All except post-secondary education
Idaho	30		Vocational training, basic education (GED, English-as-a-Second-Language (ESL), alternative school)
Illinois	30	30 (up to 2 years)	Adult basic education, GED, vocational programs, post-secondary education
Indiana			All except post-secondary education
Iowa			Job seeking skills training, high school completion or GED, adult basic education, ESL, post-secondary education not leading to a degree beyond a bachelor's degree, and any other academic or vocational training course of study that enables the participant to complete high school, improve one's ability to read and speak English, or prepares the individual for a specific professional or vocational area of employment
Kansas	30	10	All
Kentucky	30	10	Vocational education training (also Adult education (literacy, GED, ABE) if approved)
Louisiana	30	10	Vocational education, secondary school, GED or basic skills training, employment-related education
Maine	30	10	All
Maryland	Varies	Up to 20	Job-related and employment only
Massachusetts	20-30		Vocational education, job skills training directly related to employment, secondary school
Michigan	40	10	Secondary education, job skills training, ESL, education directly related to employment,
Minnesota	30		All
Mississippi	30	5	Vocational education training, school or education directly related to employment, secondary school, GED class, or post-secondary education
Missouri	30		
Montana	30		Vocational education, job skills training directly related to employment, secondary school,
Nebraska			Post-secondary education, basic education (GED, ESL), job skills training
Nevada	30	5	Vocational education, job skills training directly related to employment, basic education
New Hampshire	30	2X(number of credits)	Basic education, post-secondary education for up to 12 months (not if two-parent household), vocational skills training
New Jersey	35		Vocational education, job skills training directly related to employment, secondary school, GED class, post-secondary education
New Mexico	Variable	Variable	Depends on program
New York	30	Variable	All
North Carolina	30	10	All
North Dakota	30		High school/GED or education directly related to employment, job skills related to employment, or vocational training
Ohio	20-30		Vocational education, job skills training, education directly related to employment, basic education activities (literacy, GED)
Oklahoma	30		Vocational education, job skills training directly related to employment, secondary school, GED class
Oregon	Variable	Variable	All
Pennsylvania	20	20 (first year only)	General education, basic adult education, vocational education, ESL, college or a job skills program
Rhode Island	30	30	Attending school or participating in an equivalency program; and engaging in education and training activities judged to enhance employability (examples are ESL classes and vocational training
South Carolina	30		Vocational training, job skills training related to work, or education directly related to work
South Dakota	30	10	Vocational education can be primary work activity; combined work and education activity (CWEA) must be full time student (12-15 hours) studying marketable skills for employment
Tennessee	40	20	Vocational education training, post-secondary education, secondary school, training prep education (preparing for post-secondary or job skills training, employer-specific training, self-initiated job skills training, literacy test and adult education)
Texas	30		Education and training
Utah	34		All
Vermont	30		All
Virginia	30	Up to 30	Employment related education
Washington	30	Up to 30	Vocational education, Job skills training, education directly related to employment, secondary school, GED class
West Virginia	30	10	Vocational education, secondary education, post-secondary education
Wisconsin	40	12	Skills training, job skill development, motivational training, life skills training, technical college education, & post-secondary education
Wyoming	30		Educational activities which lead to no more that the first baccalaureate degree or one vocational training program as job skills training directly related to employment

Source: The Welfare Rules Database, http://anfdata.urban.org/WRD, © 2004, The Urban Institute.

Allowable activities listed by the Urban Institute include basic or remedial education, high school/GED, English as a second language, post-secondary education, and on-the-job training.

WRD data were supplemented in this table by data from state web sites. Additional details are available in the WRD and upon request from the authors of this report.

Implement an On-the-Job Training Program

Background

The Governor's Task Force recommended the adoption of a program similar to those used by the Tennessee Department of Labor and Workforce Development, in which employers would be paid to provide on-the-job training—and jobs—to Families First participants. Current state law prohibits such a program for Families First participants.

Advantages and Disadvantages

On-the-job training (OJT) ensures that workers are gaining skills that are needed for the job they hold. The end result is that workers are better prepared for their jobs and are thus more likely to keep them. To the extent that employers might be reluctant to offer OJT to current and former welfare participants, an employer-based subsidy might be an effective incentive. One disadvantage is that programs such as the one proposed, where employers are paid for offering OJT and jobs to Families First participants, involve significant administrative costs. Someone has to identify suitable employers, cultivate relationships with them, market the subsidy program to potential employers, and then monitor program participation and progress among both employers and workers.

Findings from the Recent Literature

The relative merits of employer-based versus employee-based subsidies have long been explored in the academic literature. In perhaps the most widely cited recent study, Dickert-Conlin and Holtz-Eakin (1999) conclude that employee-based subsidies such as the Earned Income Tax Credit are likely to be more effective than employer-based subsidies.[24] While their focus was not on employer credits for providing OJT and jobs to welfare participants, their findings are relevant to this review. For one, employer-based credits can potentially increase the stigma from welfare participation, where certain employees are treated differently on the job simply because they are on TANF and generating a subsidy for their employers while other workers are not. Perhaps as a result of this, existing employer-based credits are characterized by low participation rates.

This brings up the important fact that employer-based credits already exist at the federal level. The Work Opportunity Tax Credit, authorized by the Small Business Job Protection act of 1996, encourages employers to hire eight targeted groups of job seekers (including welfare recipients) by reducing employers' federal income tax liability by as much as $2,400 per qualified new worker. The Welfare-to-Work Tax Credit, established by the Taxpayer Relief Act of 1997, encourages employers to hire longer-term TANF recipients who begin to work on or after December 31, 2003 and before January 1, 2006, also by reducing employers' federal tax liability but by as much as $8,500 per new hire.

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[24] Dickert-Conlin, Stacy, and Douglas Holtz-Eakin. "Employee-Based versus Employer-Based Subsidies to Low-Wage Workers: A Public Finance Perspective." In *Finding Jobs: Work and Welfare Reform.* Rebecca Blank and David Card, editors. Russell Sage Foundation: New York: 262-395, June 2000.

Hamersa (2005, p. 1) provides an exhaustive summary of these two federal credits:

> "The evidence suggests that the programs are vastly underutilized and have not had a meaningful effect on employment rates among the disadvantaged. However, those relative few workers whose employers participate do appear to experience a modest earnings increase as a result of the subsidies."[25]

Conclusion

We recommend that TDHS not pursue this proposal from the Task Force. Instead, program administrators might consider helping Federal officials market existing employer- and employee-based tax credits such as the Work Opportunity, the Welfare-to-Work, and the Earned Income Tax Credits.

[25] Hamersma, Sarah. "The Work Opportunity and Welfare-to-Work Tax Credits." Tax Policy Issues and Options No. 15, Urban-Brookings Tax Policy Center, October 2005.

Implement a Diversion Program

Background

Diversion programs are intended to substitute for full TANF participation for families who are in need of short-term assistance and who might not really need the full menu of TANF benefits. Most states currently have some form of diversion program. Rather than signing up for the full TANF program, qualifying families are given the option to take a one-time cash payment or voucher or vendor payment for services (such as child care or transportation) in exchange for staying off the TANF rolls for a period of time. Additional limits are frequently placed on the number of times a family can apply for and receive diversion payments.

As shown in Table 4, 27 states and the District of Columbia had diversion programs in 2003, 25 of which provided cash payments and 16 of which provided vendor payments for support services. Twelve states had cash-only diversion programs while only three had vendor-only programs. In most states, diversion payments are roughly equal to three months of full TANF benefits. Some states set maximum payment amounts, typically between \$1,000 and \$1,600.

Only five states do not place a limit on the amount of times that a family can receive diversion payments. Most states limit diversion payment receipt to once per year. Further, most states require that diversion payment recipients wait at least a few months, often up to a year, before they are eligible to apply for full TANF benefits. Finally, all but five of the states do not apply diversion payment periods to TANF time limits. Of Tennessee's eight neighboring states, four had diversion programs in 2003 (Arkansas, Kentucky, North Carolina, and Virginia) while the other four did not.

Advantages and Disadvantages of Diversion Programs

There are a few obvious potential advantages of diversion programs. First, they can trim the full TANF rolls by slowing the entry of new families onto the program (by "diverting" them onto the diversion program). This can generate important savings in terms of total benefit payments, case administration costs, and the like. Further, a diversion program might help more families work toward self-sufficiency if more needy families choose to participate in the diversion program who might not have participated fully in TANF due to program rules and restrictions. The diversion program might also reduce welfare stigma given the short-term nature of the program and the reduced need for regular appearances at the local TANF office.

On the other hand, diversion programs have some potential disadvantages that should be considered by program officials. First, as discussed above, they may increase the total number of families receiving some form of public assistance. While this may improve the overall level of well-being in society, it has the potential to increase total program spending and place pressure on already-tight budgets. Second, the fact that diversion programs keep families from receiving full TANF benefits might also reduce Food Stamp or Medicaid (Tenncare) receipt among those same families, even though they might be eligible for those programs. Recent evidence discussed below suggests that diverted families are actually more likely to receive Food Stamps.

Regardless of the direction of the impact on Food Stamp or Medicaid enrollments, the extent to which it constitutes a cost or a benefit is in the eye of the beholder. Another potential disadvantage is that extremely needy or low-income families may be persuaded to accept a larger, up-front diversion payment rather than enrolling in TANF without fully weighing the consequences of the decision, possibly leading to increased long-term need for those families.

Findings from the Recent Literature

Very little work has been done on the effects of welfare diversion programs. In perhaps the only national study, London (2003, p. 373) examines the 1999 National Survey of America's Families (NSAF) and concludes that

> "…diversion programs appear to target applicants at the high and low ends of the educational spectrum, as well as Hispanic and married families. Diverters are substantially less likely to be employed than TANF leavers and more likely to receive food stamps."[26]

In London's multivariate models of the determinants of diversion program participation (relative to full TANF participation), however, only the higher education and marital status results continued to hold. Hispanics and those with lower education were not statistically more likely to participate in diversion once other factors were controlled for. The dominant effect, then, is that diversion programs seem to appropriately skim the best-able applicants rather than attracting those who are more likely to need long-term assistance.

London also cites evidence from state-level studies in Colorado, Kentucky, Maryland, and North Carolina which reveals that post-diversion employment rates are not typically higher and often slightly lower than pre-diversion employment rates.[27] These results and London's finding that diversion participants are less likely to be employed is perhaps partially explained by differences in work requirements and support services for diverters relative to full TANF participants. An additional interesting result from those state studies is that only about one-fifth of diversion program participants can be expected to return to assistance within 12 to 18 months.

[26] London, Rebecca A. "Which TANF Applicants Are Diverted, and What Are Their Outcomes?" *Social Science Review*, September 2003, pp. 373-398.

[27] Colorado: Valvano, Vincent M., Deana Goldsmith, Yasuyo Abe, Will Fischer, and Fannie Tseng. *Evaluation of the Colorado Works Program, Third Annual Report, pt. 1, Diversion Programs and Work Activity Participation*. Oakland, CA: Berkeley Policy Associates, 2001.
Kentucky: Barber, Gerard, Bob Daugherty, and Dan McAdams. "An Alternative to TANF: Experience with Kentucky's Family Alternative Diversion Program." Paper presented at the 2002 National Association for Welfare Research and Statistics Workshop, Albuquerque, NM, August.
Maryland: Lacey, Darren, Andrea Hetling-Wernyj, and Catherine E. Born. *Life without Welfare: The Prevalence and Outcomes of Diversion Strategies in Maryland*. Baltimore, MD: Family Welfare Research and Training Group, University of Maryland, 2002.
North Carolina: Richardson, Phil, Gregg Schoenfeld, and Swati Jain. *Welfare Recipients, Leavers, and Diverters in North Carolina: Final Report of Administrative Records Data*. Reston, VA: MAXIMUS, 2001.

How Might a Diversion Program Affect Tennessee's Families First Caseload?

CBER's 50-state model can be used to simulate the likely effect of a diversion program on Tennessee's Families First caseload. To begin, we use model estimates along with Tennessee's actual program rules and economic data to generate the model's prediction of the 2003 Families First caseload. We then generate a new prediction by assuming that Tennessee institutes a diversion program in 2003 while all other data and program features in the model remain unchanged. This exercise yields the prediction that *a diversion program would have reduced the 2003 Families First caseload by about one-tenth*. This result is driven, of course, by experiences in the other states with diversion programs while controlling for other important differences in economics, demographics, and policy rules.[28]

To put this estimate in perspective, we examine caseload data for 26 states that implemented diversion programs in 1997 or later. In each of these states, caseloads in the first year of the diversion program were lower than in the previous year. The average change in the caseload was nearly 22 percent, ranging from a low of 1.1 percent in Arizona (2000) to a high of 71 percent in Idaho (1998). The median caseload reduction was 19.7 percent. Of course, these changes in caseloads resulted from many different factors and should not be interpreted as resulting entirely from the implementation of diversion programs.

On that note, we find that the percentage reductions in caseloads tended to be smaller the later the diversion program was implemented. In other words, reductions were largest in the early years of TANF—the late 1990s—when caseloads were falling dramatically due to the healthy economy and policy changes. The average caseload reduction in the first year of the diversion program was 29.7 percent for those implemented in 1997, 25.7 percent in 1998, 19.5 percent in 1999, 15.4 percent in 2000, and 10.2 percent in 2002 (no states implemented diversion programs in 2001). Interestingly, in the three states that have *removed* diversion programs since 1996, the average caseload increase in the first year after the diversion program was just under ten percent. In Montana and Nevada, where diversion programs were removed in 2001, caseloads increased by 8.3 and 19.3 percent, respectively. Minnesota's caseload rose by 1.8 percent just after its diversion program was removed in 2003.

Results from Recent Tennessee Surveys of Families First Participants

The survey component of CBER's *2005 Families First Characteristics Study* (forthcoming) includes a few interesting questions regarding possible diversion programs. Respondents, all of whom were on Families First at the time of the survey, were asked the following four questions, and 1,068 complete responses were provided:

1. "Now I want you to think about the most recent time you signed up for the Families First program. If you had been offered a one-time cash payment of $300 instead of full program participation, knowing that you could not apply again for the program for one full year, would you have taken the one-time payment of $300 or signed up for the program? Food stamps would be the same either way."

[28] Note that the CBER caseload model also includes indicators for each year of data in order to account for macroeconomic and other trends affecting all state caseloads.

Yes, I would have taken the $300	9.3%
No, I would have signed up for the program	88.5%
Not sure	2.2%

2. "What if the cash payment was $1,000?"

Yes, I would have taken the $1,000	22.0%
No, I would have signed up for the program	73.9%
Not sure	4.1%

3. "Again, think about the most recent time you signed up for Families First. What if, instead of a cash payment, you had been offered child care assistance with the same restriction that you could not sign up for the Families First program for one full year? Would you have taken SIX MONTHS of child care assistance, or would you have signed up for full program participation?"

Yes, I would have taken child care assistance for six months	21.3%
No, I would have signed up for the program	75.7%
Not sure	3.1%

4. "How about ONE YEAR of child care assistance?"

Yes, I would have taken child care assistance for one year	31.9%
No, I would have signed up for the program	64.2%
Not sure	3.8%

Taken together, these results indicate that a substantial share of Tennessee's Families First caseload might not be on the program today if a diversion program had been offered as a substitute. Additionally, it appears that respondents would have preferred short-term child care assistance rather than a cash payment.

Conclusion

All of this leads us to agree with the Task Force's recommendation that Tennessee should implement a diversion program. This program should provide a choice between a short-term cash payment equal to three months of Families First cash assistance or short-term child care or transportation assistance for a period of six months. Families should not be able to receive diversion payments more than three times in their lifetimes, and they should be required to remain off Families First for a period of one year following receipt of diversion benefits unless they consent to having diversion benefits count against their Families First benefit and time limit. Above all else, case managers should perform careful needs assessments upon application in order to appropriately target the diversion program.

Table 4: Diversion Program Rules by State, 2003

State	Diversion	Cash	Services	Period or Amount	Frequency	Wait Period for TANF	Applies to Time Limit
Alabama	No						
Alaska	Yes	X	X	3 months	4/lifetime	No (d)	No
Arizona	Yes	X		3 months	1/12 months	3 months	No
Arkansas	Yes	X		3 months	1/lifetime	100 days	Yes
California (a)	Yes	X	X	Varies	$4,000/year; $10,000/lifetime		Varies
Colorado (a)	Yes	X	X	$1,000	2/lifetime	Case-by-case	No
Connecticut	Yes	X		3 months	1/12 months and 3/lifetime	3 months	Yes
Delaware	Yes		X	$1,500 (max)	1/12 months	1, 2, or 3 months	No
D.C.	Yes	X	X	3 months	1/12 months	Varies (e)	No
Florida (b)	Yes	X	X	$1,000	Varies	3 or 6 months	No
Georgia	No						
Hawaii	Yes	X		8 months	1/60-month timelimit	Varies	No
Idaho	Yes	X		3 months	1/lifetime	2 X (mos. of diversion)	Yes
Illinois	Yes	X	X				No
Indiana	No						
Iowa (a)	No						
Kansas	No						
Kentucky	Yes	X		$1,300 (max)	2/lifetime	12 months	No
Louisiana	Yes	X		4 months	1/12 months	4 months	
Maine	Yes		X	3 months	1/lifetime	No	No
Maryland	Yes	X		3 months	No Limit	1 X (mos. of diversion)	No
Massachusetts	No						
Michigan	No						
Minnesota	No						
Mississippi	No						
Missouri	No						
Montana	No						
Nebraska	No						
Nevada	No						
New Hampshire	No						
New Jersey (c)	Yes	X	X	$1,550 (max)	No Limit	No	No
New Mexico	Yes	X	X	$1,500	2/60-month timelimit	12 months	No
New York	Yes	X	X	Case-by-case	1/lifetime		No
North Carolina	Yes	X	X	3 months	1/12 months	No	No
North Dakota	No						
Ohio	No						
Oklahoma	Yes		X	3 months	1/lifetime	12 months	No
Oregon	No						
Pennsylvania	No						
Rhode Island	No						
South Carolina	No						
South Dakota	Yes	X	X	2 months	No limit	3 months	No
Tennessee	No						
Texas	Yes	X		$1,000	1/12 months	12 months	No
Utah	Yes	X	X	3 months	No limit	No	Yes
Vermont	No						
Virginia	Yes	X	X	4 months	1/60 months	Varies (e)	No
Washington	Yes	X		$1,500 (max.)	1/12 months	No (f)	No
West Virginia	Yes	X		3 months	1/lifetime	3 months	No
Wisconsin	Yes	X		$1,600 (loan)	No limit	No	No
Wyoming	No						

Notes:

(a) Program not statewide.

(b) Unlimited amount for relocation assistance.

(c) Payment varies by family size.

(d) Diversion payments count as income if family applies for full TANF within 3 months.

(e) Wait period equals (diversion payments) / (monthly TANF benefit).

(f) Diversion payments convert to a loan if family applies for full TANF within 12 months.

Source: The Welfare Rules Database, http://anfdata.urban.org/WRD, © 2004, The Urban Institute.

Promote Access to Transportation

Background

TANF's focus on moving welfare recipients into the workforce requires equal emphasis on removing barriers to employment. Among barriers to work, participants consistently identify transportation as a significant problem. Recognizing that many Families First participants do not have access to public transportation, the Governor's Task Force recommended that program officials expand Tennessee's *First Wheels* program and increase gasoline reimbursements. Another recommendation was to restore transitional transportation assistance for recent program leavers, a benefit that was eliminated during tight budget years. Finally, the task force encouraged TDHS to work with the Tennessee Department of Transportation (TDOT), the Tennessee Department of Education, community providers, and employers to expand the existing public transportation network to accommodate participants' commuting patterns.

Several states have adopted measures to facilitate car access or ownership among current and former welfare recipients. Specific details for each state are too numerous to summarize in a single table, and are often decided at the county level. Some of the more popular transportation benefits include reimbursements for mileage or work-related trips (typically up to some stated maximum amount), shuttle or van services, or public transportation passes for work-related activities. All states exclude a certain amount of vehicle wealth—referred to as a vehicle exclusion—in calculating eligibility and benefit levels. In 2003, these amounts range from a low of $4,115 in Iowa to a maximum of the value of all vehicles in the household in several states according to the Welfare Rules Databook.

Tennessee's vehicle exclusion amount of $4,650 is near the low end of the distribution. At the same time, our state's *First Wheels* program provides zero-interest loans for the purchase of a pre-owned automobile. Enrollment data suggest that this unique program is not heavily used.

Advantages and Disadvantages

Program participants and administrators consistently identify transportation as an important barrier to employment. Reasons for the transportation difficulties are well documented.[29] Welfare recipients often live within inner-city areas which are frequently isolated from suburban jobs, and they are often poorly qualified for jobs in the central business district. Transportation also affects the job-search area, as many entry-level positions require applying in person for face-to-face interviews.

Proponents argue that the lack of transportation places welfare recipients and the working poor at a disadvantage for several reasons. They note the "spatial mismatch" between rural and inner-city residents and suburban employment opportunities.[30] Personal vehicles might therefore

[29] See the various references in Gurley, Tami, and Donald Bruce, "The Effects of Car Access on Employment Outcomes for Welfare Recipients," *Journal of Urban Economics* 58(2): 250-272, 2005.
[30] Ihlanfeldt, K., and D. Sjoquist. "The Spatial Mismatch Hypothesis: A Review of Recent Studies and Their Implications for Welfare Reform." *Housing Policy Debate* 9: 849-892, 1998.

allow for a broader job search, generally more reliable transportation, shorter commute times, and the ability to work during hours not supported by the mass transit system. A broader search area and the ability to work non-traditional hours might allow individuals to find higher paying jobs. Further, more convenient and reliable transportation is likely to increase job retention. Additional trips to day care providers and retailers are also less complicated with a personal automobile.

Those opposed to promoting car ownership also raise compelling arguments. First, given the low asset limits for eligibility, the cars available to welfare recipients and the working poor might be older or have higher mileage. This problem is exacerbated by policies that provide an asset exemption for a set value amount. Older vehicles are costlier to maintain and emit more air pollutants than their newer counterparts.[31] Further, personal vehicle promotion strategies which shift commuters from public transit options to personal vehicles might also lead to increased congestion in urban areas, although the size of Tennessee's Families First caseload suggests that any impact on congestion would be negligible.

Findings from the Recent Literature

Several recent studies provide evidence that car ownership increases the probability of being employed. Cervero, Sandoval, and Landis (2002) find that among forms of transportation, private and public, private mobility is most effective in moving participants from welfare to work.[32] The general association between car ownership and improved employment levels has been consistently established elsewhere in the literature, as surveyed by Gurley and Bruce (2005).[33] Several studies have proceeded beyond association to causality, controlling for the simultaneity of car ownership and employment decisions. Again, the evidence is largely consistent with car ownership accounting for higher levels of employment. Evidence also suggests that car ownership increases hours worked.

Transportation, and specifically individual access to personal vehicles, has been studied extensively in Tennessee. Specifically, Gurley and Bruce (2005) examine Tennessee's FALS survey data and conclude that car access increases employment outcomes for welfare recipients. Car access was found to increase the probability that Families First participants transitioned into employment and off public assistance. Car access also allowed welfare recipients and recent leavers to find jobs with higher wages. The results for hours worked were not as straightforward. Car access led to more weekly hours of work among program participants with a work requirement but did not have a significant effect in more general samples. Overall, these results suggest that promoting car access is a viable policy option for improving the labor market success of low-income households generally and welfare recipients more specifically.

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[31] Older vehicles are subject to less stringent emission standards, and emission control systems deteriorate over time. Barbour, K. *Motor Vehicle Wealth Taxes and Fleet Age: Air Quality Implications*. Doctoral Dissertation, University of Tennessee, Knoxville, 2004.

[32] Cervero, R., O. Sandoval, and J. Landis. "Transportation as a Stimulus of Welfare-to-Work: Private versus Public Mobility." *Journal of Planning Education and Research* 22: 50-63, 2002.

[33] Ibid, note 25.

How Might This Affect the Families First Caseload?

On one hand, enhanced transportation benefits might keep some families on assistance for a longer period of time. On the other hand, if those benefits increase employment and wages among program participants, some families might achieve self sufficiency earlier and thus leave assistance rolls. While it is virtually impossible to assess the likely net impact of these two opposing trends on the Families First caseload, we suspect it to be small.

Results from Recent Tennessee Surveys of Families First Participants

A 2002 study of welfare leavers in Tennessee found that 6.5 percent of unemployed leavers identified lack of adequate transportation as prohibiting employment.[34] Consistent with "spatial mismatch," leavers in urban counties reported transportation difficulties more often than those in rural counties. Lack of a reliable car and limited public transportation were the concerns most often reported by welfare recipients; again the transportation problems were more common for urban residents.[35]

The sixth round of the FALS contained the following two questions:

"I will read you a statement. Please tell me whether you Strongly Agree, Agree, Disagree, Strongly Disagree, or if you're Not Sure: "I would not be able to work or attend training if DHS did not help me with transportation."

STRONGLY DISAGREE	9.3%
DISAGREE	34.0%
NOT SURE	5.9%
AGREE	26.6%
STRONGLY AGREE	24.2%

"Has there ever been a time in the last 9 months when you needed to be at work, school, or training and you simply had no way of getting there?"

YES	35.9%
NO	63.8%
DON'T KNOW	0.2%
REFUSAL	0.1%

Other questions about awareness of TDHS-provided transportation benefits revealed generally positive results, with two-thirds or more of respondents indicating that they knew they could get help in the form of bus passes, gas reimbursements, and car repair expenses. However, only 4

[34] Perkins, D.G., and K. Homer. *Welfare Leavers in Tennessee: For Better or for Worse?* The University of Tennessee Social Work Office of Research and Public Service, Knoxville, 2002.
[35] Social Work Office of Research and Public Service. *Families First Customer Satisfaction Survey, 2001.* The University of Tennessee, Knoxville, 2003.

respondents out of 421 who reported getting transportation benefits in the last nine months said they had participated in the *First Wheels* program.

Conclusion

Tennessee should continue to provide public transportation benefits to participants in cities with such offerings. We are not confident that much success will be realized in attempting to expand current public transit options for urban recipients, however, and would recommend that funds and effort be directed to expanding awareness and utilization of *First Wheels* and increasing gas reimbursements as recommended by the Task Force. We also recommend the reintroduction of transitional transportation benefits, a policy change that should be at least partially self-financing if it enables more families to exit program rolls sooner than they otherwise might.

Encourage Family Stability by Eliminating the Deprivation Standard

Background

Dating back to the origin of the AFDC program, welfare benefits have been largely restricted to single-parent families, or those with children who have been deprived of the productive capacity or support of one or both of their parents. In practice, this "deprivation standard" makes it very difficult for married couples with children to receive Families First benefits. For this main reason, the Governor's Task Force recommended elimination of the deprivation standard.[36]

Advantages and Disadvantages

At its worst, the deprivation standard might serve as a disincentive for a single mother to marry the father of her children. While current Tennessee program rules allow a new husband's resources to be excluded in the calculation of the assistance group's benefit, all resources must be counted if the family exits and then attempts to return to the program. Opponents of deprivation standards argue that they increase the cost of marriage and reduce its likelihood, thereby potentially reducing the well-being of children in affected households. Supporters argue that the deprivation standard ensures that limited public resources are directed to the neediest families.

Findings from the Recent Literature

While the effects of welfare rules on fertility have been widely studied in the recent literature (see above), deprivation standards have received only limited attention. A recent evaluation conducted by Mathematica Policy Research, Inc. for the U.S. Department of Health and Human Services finds that married couples are significantly less likely to be eligible for TANF benefits, mainly due to higher income levels.[37] Given eligibility, however, married couples are also much less likely to participate in TANF. Observable characteristics were only able to explain a small part of the lower participation rate among eligible families.

How Might This Affect the Families First Caseload?

We are in the process of counting the number of two-parent families who are not currently receiving Families First benefits but who are receiving either Food Stamps or TennCare (Medicaid-eligible only). This count will give us an upper-bound estimate of the possible increase in the Families First caseload upon removal of the deprivation standard. We note, however, that these families are likely to have higher household income levels—and hence lower Families First cash benefit levels—than current participants. The percentage increase in total program spending would therefore be smaller than the percentage increase in the caseload,

[36] Unfortunately, reliable data on deprivation standards for all U.S. states are not available. Several possible sources were found to have serious errors and were therefore omitted from this report.
[37] *Public Assistance Use Among Two Parent Families: An Analysis of TANF and Food Stamp Program Eligibility and Participation*. A Report to the U.S. Department of Health and Human Services by Mathematica Policy Research, Inc. January 2005.

especially when factoring in the possible reduction in benefit levels among current unmarried participants whose new husbands' incomes would be counted in the benefit calculation process.

Conclusion

While CBER research has questioned the impact of marriage on various participant outcomes, we recognize that program rules should be designed in such a way as to not directly discourage marriage among program participants.[38] Removal of the deprivation standard would remove what is perhaps the most significant barrier to marriage among program participants.

[38] Richards, Tami, and Donald Bruce. *Evaluating the Role of Marriage for Tennessee Welfare Recipients*. A Report to the Tennessee Department of Human Services. Knoxville, TN: University of Tennessee Center for Business and Economic Research, June 2004.

Changes in Program Administration and Delivery

A. Change the DHS Organizational Environment

The Task Force recommended more intensive case management, highlighted by individual service plans and both higher pay and qualifications alongside a reduced workload for case managers. The group also recommended a more client-focused climate, to be made possible by the creation of neighborhood satellite offices in major urban areas. Yet another recommendation in this broad area was for new case manager training curricula and delivery methods, focusing on professional development and clear career tracks.

We are aware of very little research in these areas, due mainly to the difficulty in quantifying the issues at hand, and consequently limit our analysis accordingly. Additional research, perhaps including a review of best practices in other states, would be worthwhile before making major policy changes along these lines. On the surface, though, these are worthy but perhaps expensive program goals. It is not likely that the current budget environment at the federal and state levels would provide for all of these changes, especially those regarding increased pay for all case managers and the creation of additional satellite offices.

To be sure, some of these proposed changes could be implemented in the current structure with little to no additional resources. First, a system of individualized service plans already exists with the Personal Responsibility Plan (PRP) structure. To the extent that case manager workloads permit, case managers should continue to strive to have PRPs reflect individual situations. Case manager training could also be improved within the current program structure. TDHS should also undertake efforts to equalize workloads across various field offices.

B. Improve Career Advancement

The Task Force recommended that case managers focus more on long-term employment for recipients, providing more education about labor market conditions, high-demand occupations, non-traditional job opportunities, and continuing education programs. We agree with the spirit of these recommendations and urge TDHS officials to continue emphasizing them as they train case managers.

C. Develop More Effective Partnerships with Agencies and Organizations at All Levels

Recognizing that Families First is but one part of a network of state and local public assistance programs, the Task Force recommended that TDHS establish and maintain partnerships with education and training institutions and other organizations (e.g., local non-profits and social service organizations) in order to more effectively meet the program's mission. We agree with this proposal but encourage program officials to start small, perhaps by strengthening existing relationships with these types of organizations.

The group also recommended a pay-for-performance system based on job placement, retention, and salary. We do not concur with this recommendation for reasons outlined in previous sections of this report.

D. Assist in Disability Application Process

On a similar note, the Task Force encouraged an emphasis on helping Families First participants navigate the Supplemental Security Disability Income (SSDI) system. Program administrators probably do a lot along these lines already, but we agree with the notion that more emphasis could be placed on this and related programs. While it might involve some additional training and administrative costs, it could generate program savings if current Families First participants are moved (legitimately, of course) onto other program rolls.

Summary

We applaud the careful work of the Governor's Task Force on Families First and agree in principle with the majority of their recommended policy changes. To highlight a few of the areas where we feel very strongly that change is warranted, we support a continued emphasis on education as a major component of required work activities among participants, as well as expanded child care and transportation assistance. We also support the implementation of a diversion program. Research in these areas is very strong and allows us to make these recommendations with greater confidence.

While our other recommendations are also based on our reading of the available evidence, we believe that additional research is warranted before making major changes. For example, evidence to date *suggests* that the family cap and deprivation standard should be removed, and that the 18-month time limit policy should be revised to ensure fair application and allow broader participation in education and training programs. The following strike us as the most important unanswered questions that require additional analysis:

Time Limits
- To what extent do time limits serve as a barrier to participation in and/or completion of education and training programs?
- How do time limits affect families in the time leading up to the time limit?
- Are time limits, exemptions, and interruptions administered fairly across the state?

Family Caps
- How has the family cap policy affected children on Families First?

Child Care Assistance
- To what extent would non-Families-First child care assistance reduce the Families First caseload?

Deprivation Standard
- How would elimination of the deprivation standard impact the Families First caseload?
- What would elimination of the deprivation standard cost in terms of total program expenditures?